IMPORTANT NOTICE

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The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and BARCLAYS BANK PLC, BNP PARIBAS, DEUTSCHE BANK AG, LONDON BRANCH, HSBC BANK PLC, LLOYDS TSB BANK PLC, MACQUARIE BANK LIMITED, LONDON BRANCH, MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC, MORGAN STANLEY & CO. INTERNATIONAL PLC, NATIONAL AUSTRALIA BANK LIMITED, ROYAL BANK OF CANADA EUROPE LIMITED OR THE ROYAL BANK OF SCOTLAND PLC or any affiliate of any of the above is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by BARCLAYS BANK PLC, BNP PARIBAS, DEUTSCHE BANK AG, LONDON BRANCH, HSBC BANK PLC, LLOYDS

TSB BANK PLC, MACQUARIE BANK LIMITED, LONDON BRANCH, MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC, MORGAN STANLEY & CO. INTERNATIONAL PLC, NATIONAL AUSTRALIA BANK LIMITED, ROYAL BANK OF CANADA EUROPE LIMITED OR THE ROYAL BANK OF SCOTLAND PLC or such affiliate on behalf of the Issuer in such jurisdiction.

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THAMES WATER UTILITIES CAYMAN FINANCE LIMITED

(incorporated with limited liability in the Cayman Islands with registered number MC-187772)

£10,000,000,000 Multicurrency programme for the issuance of
Guaranteed Wrapped Bonds unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to financial guarantees issued by
a Relevant Financial Guarantor
and Guaranteed Unwrapped Bonds
financing
Thames Water Utilities Limited

(incorporated in England and Wales with limited liability with registered number 2366661)

On 30 August 2007, Thames Water Utilities Cayman Finance Limited (the "**Issuer**") entered into a multicurrency programme for the issuance of up to £10,000,000,000 Guaranteed Wrapped Bonds and Guaranteed Unwrapped Bonds (the "**Programme**"). This Prospectus does not affect any bonds issued under the Programme before the date of this Prospectus.

The payment of all amounts owing in respect of the bonds (the "**Bonds**") will be unconditionally and irrevocably guaranteed by Thames Water Utilities Limited ("**TWUL**"), Thames Water Utilities Holdings Limited ("**TWH**"), Thames Water Utilities Cayman Finance Holdings Limited ("**TWUCFH**") and Thames Water Utilities Finance Limited ("**TWUF**") as described herein. TWUL, TWUF, TWUCFH, the Issuer and TWH are together referred to herein as the "**Obligors**".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended ("**FSMA**") (the "**UK Listing Authority**" or "**UKLA**") for Bonds issued under the Programme during the period of twelve months after the date hereof, to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Bonds to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to Bonds being "**listed**" (and all related references) shall mean that such Bonds have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive) of the European Parliament and of the Council on markets in financial instruments. The Programme provides that Bonds may be listed on such other or further stock exchange(s) as may be agreed between the Obligors and the relevant Dealer (as defined below). The Issuer may also issue unlisted Bonds.

The Bonds may be issued on a continuing basis to one or more of the Dealers specified under Chapter 1 "*The Parties*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the "**relevant Dealer**", in the case of an issue of Bonds being (or intended to be) subscribed by more than one Dealer, shall be to all Dealers agreeing to subscribe to such Bonds.

See Chapter 4 "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Co-Arranger
Barclays Capital
Certain Dealers

Barclays Capital
Deutsche Bank
Lloyds Bank Corporate Markets
Morgan Stanley
RBC Capital Markets

BNP PARIBAS
HSBC
Mitsubishi UFJ Securities International plc
National Australia Bank Limited

The Royal Bank of Scotland

Prospectus dated 24 June 2011

Under the Programme the Issuer may, subject to all applicable legal and regulatory requirements, from time to time issue Bonds in bearer and/or registered form (respectively "**Bearer Bonds**" and "**Registered Bonds**"). Copies of each Final Terms (as defined below) will be available (in the case of all Bonds) from the specified office set out below of Deutsche Trustee Company Limited as bond trustee (the "**Bond Trustee**"), (in the case of Bearer Bonds) from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Registered Bonds) from the specified office set out below of each of the Registrar and the Transfer Agent (each as defined below), **provided that**, in the case of Bonds which are not listed on any stock exchange, copies of the relevant Final Terms will only be available for inspection by the relevant Bondholders.

The maximum aggregate nominal amount of all Bonds from time to time Outstanding (as defined below) under the Programme will not exceed £10,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

Details of the aggregate principal amount, interest (if any) payable, the issue price and any other conditions not contained herein, which are applicable to each Tranche of each Sub-Class of each Class of each Series (all as defined below) will be set forth in a final terms (the "**Final Terms**") which, in the case of Bonds to be admitted to the Official List and to trading on the Market, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the relevant date of issue of the Bonds of such Tranche.

Bonds issued under the Programme will be issued in series (each a "**Series**") and in one or more of four classes (each a "**Class**"). The guaranteed wrapped Bonds will be designated as either "**Class A Wrapped Bonds**" or as "**Class B Wrapped Bonds**". The guaranteed unwrapped Bonds will be designated as either "**Class A Unwrapped Bonds**" or "**Class B Unwrapped Bonds**". Each Class may comprise one or more sub-classes (each a "**Sub-Class**") with each Sub-Class pertaining to, among other things, the currency, interest rate and maturity date of the relevant Sub-Class. Each Sub-Class may be zero-coupon, fixed rate, floating rate or index-linked Bonds and may be denominated in sterling, euro or U.S. dollars (or in other currencies subject to compliance with applicable laws). Each Sub-Class may be issued in one or more tranches (each a "**Tranche**"), the specific terms of each Tranche being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class.

Each Class of Class A Unwrapped Bonds or Class of Class B Unwrapped Bonds (as relevant) is expected on issue to have the following credit ratings:

	Standard & Poor's	**Moody's**
Class A Unwrapped Bonds	A-	A3
Class B Unwrapped Bonds	BBB	Baa3

The credit ratings of any Class of Class A Wrapped Bonds or any Class of Class B Wrapped Bonds which may be issued by the Issuer under the Programme in the future are not known as at the date of this Prospectus.

Class A Wrapped Bonds and Class B Wrapped Bonds (the "**Wrapped Bonds**") will be unconditionally and irrevocably guaranteed as to scheduled payments of interest and principal (as adjusted for

indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Step-up Fee Amounts, as defined below (the "**FG Excepted Amounts**")) pursuant to Financial Guarantees (as defined below) (and the endorsements thereto) to be issued by certain financial institutions, each a "**Financial Guarantor**". The Financial Guarantor issuing a Financial Guarantee in respect of any Class, Sub-Class or Tranche of Class A Wrapped Bonds or Class B Wrapped Bonds is referred to as the "**Relevant Financial Guarantor**" in respect of such Classes, Sub-Classes or Tranches. The credit rating of such Class A Wrapped Bonds and such Class B Wrapped Bonds will be based upon the financial strength of the relevant Financial Guarantor. None of the Class A Unwrapped Bonds or Class B Unwrapped Bonds (the "**Unwrapped Bonds**") will benefit from a Financial Guarantee or the guarantee of any other financial institution.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Each of Standard & Poor's and Moody's is a credit rating agency established and operating in the European Community prior to 7 June 2010 and has submitted an application for registration in accordance with the CRA Regulation and as at the date of this Prospectus, such application for registration has not been refused.

Whether or not a rating in relation to any Class of Bonds will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms.

Each Sub-Class of Bearer Bonds may be represented initially by a Temporary Global Bond (as defined below), without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (as defined below) on or about the Issue Date (as defined below) of such Sub-Class. Each such Temporary Global Bond will be exchangeable for definitive securities in bearer form following the expiration of 40 days after the later of the commencement of the offering and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership or to the effect that the holder is a U.S. person who purchased in a transaction that did not require registration under the Securities Act (as defined below) and as may be required by U.S. tax laws and regulations, as described in Chapter 8 "*The Bonds*" under "*Forms of the Bonds*". Ratings ascribed to all of the Bonds reflect only the views of Standard & Poor's, a division of The McGraw-Hill Companies Inc. ("**Standard & Poor's**") and Moody's Investors Service Limited ("**Moody's**", together with Standard & Poor's, the "**Rating Agencies**").

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies. A suspension, reduction or withdrawal of the rating assigned to any of the Bonds may adversely affect the market price of such Bonds.

If any withholding or deduction for or on account of tax is applicable to the Bonds, payments of interest on, principal of and premium (if any) on the Bonds will be made subject to such withholding or deduction, without the Issuer being obliged to pay any additional amounts as a consequence.

In the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under Directive 2003/71/EC (the "**Prospectus Directive**"), the minimum specified denomination shall, subject as otherwise mentioned below, be €50,000 (or its equivalent in any other currency as at the date of issue of the Bonds).

From the date of entry into force of the EU directive amending the Prospectus Directive 2003/71/EC and the Transparency Directive 2010/73/EU (the "**Amending Directive**"), Bonds which are admitted to trading on the Market and with a maturity date which falls after the implementation date of the Amending Directive in any relevant European Economic Area Member State must have a minimum

specified denomination €100,000 (or its equivalent in any other currency as at the date of issue of such Bonds).

The Obligors may agree with any Dealer and the Bond Trustee that Bonds may be issued in a form not contemplated by the Conditions (as defined below) herein, in which event (in the case of Bonds admitted to the Official List only) a supplemental listing prospectus or further prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Bonds.

IMPORTANT NOTICE

This prospectus (the "**Prospectus**") supersedes all previous prospectuses, listing particulars and information memoranda and any supplements thereto in their entirety and comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the other Obligors and the Bonds which, according to the particular nature of the Issuer, each of the Obligors and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

Each of the Issuer and the other Obligors accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and each of the other Obligors (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information relating to the Hedge Counterparties contained in Chapter 11 "*Description of Hedge Counterparties*" has been accurately reproduced and as far as the Issuer and the other Obligors are aware and are able to ascertain from such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus is being distributed only to, and is directed only at, persons who (i) are outside the United Kingdom or (ii) are persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) are high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). This Prospectus is being distributed only to, and is directed only at, persons who do not constitute the public in the Cayman Islands. This Prospectus, or any of its contents, must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

Copies of each set of Final Terms (in the case of Bonds to be admitted to the Official List) will be available from Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB, from the specified office set out below of each of the Paying Agents or the Registrar and Transfer Agents (as applicable) and from the website of the Regulatory News Service operated by the London Stock Exchange at *http://www.londonstockexchange.com/home/homepage.htm*.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see the section "*Documents Incorporated by Reference*" below).

For any Series of Wrapped Bonds issued under the Programme, a new Financial Guarantee dated as of the Issue Date of such Series of Wrapped Bonds will be entered into by each Relevant Financial Guarantor in respect of such Bonds as set out in full in a supplemental prospectus published on or before the date of publication of the Final Terms in respect of such Bonds. The identity of the Relevant Financial Guarantor for any Series of Bonds will be set out in the applicable Final Terms.

In the case of each Tranche of Wrapped Bonds, admission to the Official List and trading on the Market is subject to the issue by each Relevant Financial Guarantor of a Financial Guarantee in respect of such Tranche.

No person has been authorised to give any information or to make representations other than the information or the representations contained in this Prospectus in connection with the Issuer, any member of the TWU Financing Group (as defined below) or the Thames Water Group (as defined below) or the offering or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, any member of the TWU Financing Group, the Thames Water Group, the Dealers, the Bond Trustee or the Security Trustee (each as defined below). Neither the delivery of this Prospectus nor any offering or sale of Bonds made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or any other Obligor since the date

hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or any other Obligor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Unless otherwise indicated herein, all information in this Prospectus is given as of the date of this Prospectus. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or any Dealer to subscribe for, or purchase, any of the Bonds.

None of the Dealers, the Financial Guarantors, the Bond Trustee or the Security Trustee nor any of the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Agents, the Account Bank, the Standstill Cash Manager, the Existing Finance Lessors or the members of the Thames Water Group (other than the Obligors) (each as defined below and, together, the "**Other Parties**") has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Dealer, any Financial Guarantor, the Bond Trustee or the Security Trustee or any Other Party as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Bonds or their distribution. The statements made in this paragraph are without prejudice to the respective responsibilities of the Issuer and the other Obligors. Each person receiving this Prospectus acknowledges that such person has not relied on any Dealer, Financial Guarantor, the Bond Trustee or the Security Trustee or any Other Party nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision. Neither the Obligors nor the Other Parties accept responsibility to investors for the regulatory treatment of their investment in any jurisdiction or by any regulatory authority.

None of the Dealers, the Financial Guarantors, the Bond Trustee, the Security Trustee or the Other Parties expressly undertakes to review the financial condition or affairs of any of the Obligors during the life of the Programme or to advise any investor in the Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Bonds.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, any Financial Guarantor, any member of the TWU Financing Group, any member of the Thames Water Group, any Dealer, the Bond Trustee, the Security Trustee or any of the Other Parties that any recipient of this Prospectus should purchase any of the Bonds.

Each person contemplating making an investment in the Bonds must make its own investigation and analysis of the creditworthiness of the Issuer and the other Obligors its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Bonds should consult independent professional advisers.

The Bonds and any guarantees in respect thereof have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and certain Bonds in bearer form may be subject to U.S. tax law requirements. Subject to certain exemptions, the Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in the Securities Act). The Bonds are being offered outside the United States in accordance with Regulation S under the Securities Act. See Chapter 12 "*Subscription and Sale*" below.

The distribution of this Prospectus and the offering, sale or delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the other Obligors and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on distribution of this Prospectus, see Chapter 12 "*Subscription and Sale*" below. This Prospectus does not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Bonds in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

No invitation may be made to the public in the Cayman Islands to subscribe for any of the Bonds.

All references herein to "**pounds**", "**sterling**", "**Sterling**" or "**£**" are to the lawful currency of the United Kingdom, all references to "**$**", "**U.S.$**", "**U.S. dollars**" and "**dollars**" are to the lawful currency of the United States of America, and references to "**€**", "**euro**" or "**Euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

This Prospectus has been prepared on the basis that any offer of Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of Bonds which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. The expression Prospectus Directive for this paragraph means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

In connection with the issue and distribution of any Tranche of Bonds, the Dealer(s) (if any) disclosed as the stabilising manager in the applicable Final Terms or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Bonds of the Series of which such Tranche forms part at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilising manager or any agent of his will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Bonds and 60 days after the date of the allotment of the relevant Tranche of Bonds. Any stabilisation action or over allotment shall be conducted in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with (i) the Terms and Conditions of the Bonds as contained at pages 133 to 167 (inclusive) of the base prospectus dated 24 August 2007 in connection with the Programme; (ii) the Terms and Conditions of the Bonds as contained at pages 132 to 164 (inclusive) of the base prospectus dated 25 July 2008; (iii) the Terms and Conditions of the Bonds as contained at pages 145 to 178 (inclusive) of the base prospectus dated 15 September 2009; (iv) the Terms and Conditions of the Bonds as contained at pages 150 to 185 (inclusive) of the base prospectus dated 15 June 2010; (v) (in the case of each of TWUL and TWUF) their respective audited financial statements for the year ended 31 March 2010 and the year ended 31 March 2011 together in each case with the audit report thereon; and (vi) (in the case of the Issuer and each other Obligor) their respective audited financial statements for the period from the date of incorporation of the Issuer or the relevant Obligor to 31 March 2008, their respective audited financial statements for the year ended 31 March 2009, their respective audited financial statements for the year ended 31 March 2010 and their respective audited financial statements for the year ended 31 March 2011 together in each case with the audit report thereon, each of which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Services Authority or filed with it save that any statement contained herein or in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents, which are themselves incorporated by reference in the documents incorporated by reference in this Prospectus, shall not form part of this Prospectus.

Each Obligor will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to any of the Issuer or the other Obligors at their respective offices set out at the end of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at: *http://www.londonstockexchange.com/home/homepage.htm*.

The Issuer will provide, free of charge, upon oral or written request, a copy of this Prospectus (or any document incorporated by reference in this Prospectus) at the specified offices of the Bond Trustee and (in the case of Bearer Bonds) at the offices of the Paying Agents and (in the case of Registered Bonds) at the offices of the Registrar and the Transfer Agents.

PRESENTATION OF FINANCIAL INFORMATION

The Cayman Islands where the Issuer is registered does not have its own national GAAP. Financial statements for Cayman Islands entities may be prepared under US or UK GAAP or International Financial Reporting Standards (IFRS), depending on the requirements of users of the financial statements. The GAAP most understood and useful to the readers of the Issuer's financial statements is UK GAAP and therefore UK GAAP is applied. The Issuer does not prepare financial statements in accordance with IFRS.

The 31 March 2011 and 31 March 2010 accounts incorporated by reference in this Prospectus are prepared under UK GAAP incorporating disclosures as required for a company issuing listed debt. The Issuer has complied with FRS 25, 26 and 29 and its financial instruments have been accounted for in accordance with these standards. FRS 25, 26 and 29 have similar requirements to IFRS standards 7, IAS 32 and IAS 39. As a result there are no significant differences between the amounts reported within the financial statements as prepared under UK GAAP and the reporting requirements under IFRS.

SUPPLEMENTAL PROSPECTUS

The Issuer has undertaken, in connection with the admission of the Bonds to the Official List and to trading on the Market, that, if there shall occur any significant new factor, mistake or material inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Bonds whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the relevant Issuer, and the rights attaching to the Bonds, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent issue by the Issuer of Bonds and will supply to each Dealer and the Bond Trustee such number of copies of such supplement hereto or replacement prospectus as such Dealer and Bond Trustee may reasonably request. The Issuer will also supply to the UK Listing Authority such number of copies of such supplement hereto or replacement prospectus as may be required by the UK Listing Authority and will make copies available, free of charge, upon oral or written request, at the specified offices of the Paying Agents (as defined herein).

Each of the Obligors has undertaken to the Dealers in the Dealership Agreement (as defined in Chapter 12 "*Subscription and Sale*") to comply with Section 81 of the FSMA.

If the terms of the Programme are modified or amended in a manner which would make this Prospectus, as so modified or amended, inaccurate or misleading, a new prospectus will be prepared.

If at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87(G) of the FSMA, the Issuer shall prepare and make available an appropriate supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental prospectus as required by the UK Listing Authority and Section 87(G) of the FSMA.

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CHAPTER 1
THE PARTIES

Issuer Thames Water Utilities Cayman Finance Limited, a company incorporated in the Cayman Islands with limited liability with registered number MC-187772, is the funding vehicle for raising funds to support the long-term debt financing requirements of TWUL. The Issuer is a wholly-owned subsidiary of TWUCFH, and is established as a special purpose entity for the purpose of issuing asset-backed securities.

TWUL Thames Water Utilities Limited, a company incorporated in England and Wales with limited liability (registered number 2366661), which holds an Instrument of Appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the then Secretary of State for the Environment appointed TWUL as a water undertaker under the Water Industry Act 1991, as amended (the "**WIA**") for the areas described in the Instrument of Appointment. TWUL is a wholly-owned subsidiary of TWH.

TWUCFH Thames Water Utilities Cayman Finance Holdings Limited, a company incorporated in the Cayman Islands with limited liability with registered number MC-196364. TWUCFH is a wholly-owned subsidiary of TWUL.

TWH Thames Water Utilities Holdings Limited, a company incorporated in England and Wales with limited liability (registered number 6195202). TWH is a wholly-owned subsidiary of Parent.

TWUF Thames Water Utilities Finance Limited, a company incorporated with limited liability in England and Wales (registered number 2403744). TWUF is a wholly-owned subsidiary of TWUL.

Parent Thames Water Limited, a private company incorporated in England and Wales with limited liability (registered number 02366623).

Guarantors Pursuant to the terms of the Security Agreement, TWH guarantees the obligations of TWUL, TWUF, TWUCFH and the Issuer under each Finance Document in favour of the Security Trustee. In addition, TWUL, TWUF, TWUCFH and the Issuer each guarantee the obligations of each other (but not those of TWH) under each Finance Document in favour of the Security Trustee. TWH, TWUL, TWUF, TWUCFH and the Issuer are collectively referred to herein as the "**Guarantors**" and each a "**Guarantor**".

TWU Financing Group The TWU Financing Group comprises TWH, TWUL, TWUF, TWUCFH and the Issuer.

Thames Water Group Kemble Water Holdings Limited and its Subsidiaries from time to time.

Co-Arrangers Barclays Bank PLC and Macquarie Bank Limited, London Branch.

Dealers Barclays Bank PLC, BNP PARIBAS, Deutsche Bank AG, London Branch, HSBC Bank plc, Lloyds TSB Bank plc, Macquarie Bank Limited, London Branch, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc, National Australia Bank Limited, Royal Bank of Canada Europe Limited and The Royal Bank of Scotland plc will act as dealers (together with any other dealer appointed from time to time by the Issuer and the other Guarantors, "**Dealers**") either generally with respect to the Programme or in relation to a particular Tranche, Sub-Class, Class or Series of Bonds.

Financial Guarantors

The Issuer may arrange for financial guarantee companies (each a "**Financial Guarantor**") to issue Financial Guarantees in favour of the Bond Trustee in respect of Classes or Sub-Classes of Class A Wrapped Bonds and/or Class B Wrapped Bonds issued or raised under an Authorised Credit Facility. Such Financial Guarantors will unconditionally and irrevocably guarantee the scheduled payment of interest and principal (as adjusted for indexation, as applicable, but excluding the FG Excepted Amounts) in respect of such Wrapped Bonds.

Secondary Market Guarantors

Each Eligible Secondary Market Guarantor that, from time to time, in respect of any Class A Unwrapped Bonds (i) delivers an FG Covered Bond Notice (as defined below) to the Security Trustee and the Bond Trustee in accordance with the provisions of the STID; and (ii) accedes to the STID in accordance with the provisions thereof (each in such capacity, a "**Secondary Market Guarantor**"). FGIC UK Limited, a private limited company incorporated in England and Wales whose registered office is 3rd Floor, 11 Old Jewry, London EC2R 8DU, acceded as a Secondary Market Guarantor on 5 September 2007.

Hedge Counterparties

The Royal Bank of Scotland plc, a public limited company incorporated in England and Wales, acting through its office at RBS Global Banking and Markets, 135 Bishopsgate, London EC2M 3UR, Deutsche Bank AG, London Branch (previously Deutsche Bank AG London), a company incorporated in Germany, acting through its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB and JPMorgan Chase Bank, N.A., a company incorporated in the state of New York, acting through its office at 60 Wall Street, New York, New York 10260 (each an "**Existing Hedge Counterparty**", together with any counterparties to Hedging Agreements entered into after the Initial Issue Date in accordance with the STID, the "**Hedge Counterparties**"). The Existing Hedge Counterparties are under no obligation to enter into any Treasury Transactions after the Initial Issue Date.

Bond Trustee

Deutsche Trustee Company Limited acts and will act as trustee (the "**Bond Trustee**") for and on behalf of the holders of each Class of Bonds of each Series (the "**Bondholders**").

Security Trustee

Deutsche Trustee Company Limited acts and will act as security trustee for itself and on behalf of the Secured Creditors (as defined below) (the "**Security Trustee**").

Secured Creditors

The Secured Creditors comprise any person who is a party to, or has acceded to, the STID as a Secured Creditor. (For the avoidance of doubt, Secondary Market Guarantors will not accede as Secured Creditors.)

DSR Liquidity Facility Providers

Certain financial institutions assembled from time to time by the Thames Water Group each having the Minimum Short-Term Rating (each a "**DSR Liquidity Facility Provider**" and together, the "**DSR Liquidity Facility Providers**").

O&M Reserve Facility Providers

Certain financial institutions assembled from time to time by the Thames Water Group each having the Minimum Short-Term Rating (each an "**O&M Reserve Facility Provider**" and together, the "**O&M Reserve Facility Providers**").

Credit Facility Providers

Lloyds TSB Bank plc, Morgan Stanley Bank, N.A., BNP PARIBAS, London Branch, Deutsche Bank AG, London Branch, The Royal Bank of Scotland plc, Barclays Bank PLC, The Bank of Tokyo-Mitsubishi UFJ Ltd., HSBC Bank plc and Royal Bank of Canada or such other financial institutions assembled from time to time by the Thames Water Group each having the Minimum Short-Term Rating (each a "**Credit Facility Provider**" and together, the "**Credit Facility Providers**").

Existing Authorised Credit Provider	European Investment Bank, acting through its office at 98-100 boulevard Konrad Adenauer, Luxembourg-Kirchberg, Grand Duchy of Luxembourg and Barclays Bank PLC (each an "**Existing Authorised Credit Provider**" and together the "**Existing Authorised Credit Providers**").
Finance Lessors	Commerzbank AG London Branch (the "**Existing Finance Lessor**"), which lease plant, machinery and equipment to TWUL under the terms of various finance leases (the "**Existing Finance Leases**" and together with any future finance leases, the "**Finance Leases**").
Paying Agents	Deutsche Bank AG, London Branch acts and will act as principal paying agent (the "**Principal Paying Agent**" and, together with any other paying agents appointed by the Issuer, the "**Paying Agents**") to provide certain issue and paying agency services to the Issuer in respect of the Bearer Bonds and Registered Bonds.
Agent Bank	Deutsche Bank AG, London Branch acts and will act as agent bank (the "**Agent Bank**") under the Agency Agreement in respect of the Bonds.
Account Bank	National Westminster Bank plc, acting through its City of London office at 1 Princes Street, London (the "**Account Bank**").
Cash Manager	TWUL (the "**Cash Manager**"), or during a Standstill Period, The Royal Bank of Scotland plc (the "**Standstill Cash Manager**").
Registrar and Transfer Agent	Deutsche Bank Trust Company Americas will act as transfer agent (the "**Transfer Agent**") and will provide certain transfer agency services to the Issuer in respect of the Registered Bonds. Deutsche Bank Trust Company Americas will act as registrar (the "**Registrar**") and will provide certain registrar services to the Issuer in respect of the Registered Bonds.
TWUF Bond Trustee	Deutsche Trustee Company Limited is the trustee for and on behalf of the holders of each class of Flipper Bonds (in such capacity, the "**Flipper Bond Trustee**") and each class of Legacy Bonds (in such capacity, the "**Legacy Bond Trustee**") and, together with the Flipper Bond Trustee and the Legacy Bond Trustee, the "**TWUF Bond Trustees**" and each a "**TWUF Bond Trustee**").

CHAPTER 2
OVERVIEW OF THE PROGRAMME

The following does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the Conditions of any particular Tranche of Bonds, the applicable Final Terms. Words and expressions not defined in this section shall have the same meanings as defined in Chapter 8 "*The Bonds*".

Description	Guaranteed Bond Programme.
Programme Size	Up to £10,000,000,000 (or its equivalent in other currencies calculated as described herein) aggregate nominal amount of Bonds Outstanding at any time.
Issuance in Classes	Bonds issued under the Programme have been and will be issued in Series, with each Series belonging to one of four Classes. The Wrapped Bonds are and will be designated as either Class A Wrapped Bonds or Class B Wrapped Bonds. The Unwrapped Bonds are and will be designated as one of Class A Unwrapped Bonds or Class B Unwrapped Bonds. Each Class comprises or will comprise one or more Sub-Classes of Bonds with each Sub-Class pertaining to, among other things, the currency, interest rate and maturity date of the relevant Sub-Class and each Sub-Class can be issued in one or more Tranches, the specific terms of each Tranche of a Sub-Class being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class. The specific terms of each Tranche of Bonds are and will be set out in the applicable Final Terms.
Issue Dates	30 August 2007 (the "**Initial Issue Date**") and thereafter, the date of issue of a Tranche of Bonds as specified in the relevant Final Terms (each an "**Issue Date**").
Distribution	Bonds have been and may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Certain Restrictions	Each issue of Bonds, denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply, has been and will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the restrictions applicable at the date of this Prospectus. See Chapter 12 "*Subscription and Sale*". Bonds having a maturity of less than one year from the date of issue will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See Chapter 12 "*Subscription and Sale*".
Currencies	Euro, Sterling, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.

Redenomination

The applicable Final Terms may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 (*European Economic and Monetary Union*), as amended by the applicable Final Terms.

Maturities

Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the Relevant Currency (as defined in the Conditions).

Issue Price

Bonds have been and may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Interest

Bonds are and will, unless otherwise specified in the relevant Final Terms, be interest-bearing and interest is or will be calculated (unless otherwise specified in the relevant Final Terms) on the Principal Amount Outstanding (as defined in the Conditions) of such Bond. Interest accrues or will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and is or will be payable in arrear, as specified in the relevant Final Terms, or on such other basis and at such rate as may be so specified. Interest is or will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be agreed between the Issuer and the relevant Dealer as specified in the relevant Final Terms.

Form of Bonds

The Bonds in issue have been issued under the Programme in bearer form. Each further Sub-Class of Bonds will be issued in bearer or registered form as described in Chapter 8 "**The Bonds**". Registered Bonds will not be exchangeable for Bearer Bonds.

Fixed Rate Bonds

Fixed Rate Bonds bear or will bear interest at a fixed rate of interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, as specified in the relevant Final Terms.

Floating Rate Bonds

Floating Rate Bonds will bear interest at a rate determined:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the Relevant Currency governed by an agreement incorporating the 2000 ISDA Definitions or the 2006 ISDA Definitions (each as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Sub-Class) as set out in the relevant Final Terms; or

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Sub-Class of Floating Rate Bonds.

Indexed Bonds

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Bonds (including Limited Indexed Bonds as defined in Condition 7(a) (*Indexation - Definitions*)) are and may be calculated in accordance with Condition 7 by reference to the UK Retail Price Index or such other index and/or formula as the Issuer and the Relevant Dealer may agree (as specified in the relevant Final Terms).

Interest Payment Dates

Interest in respect of Fixed Rate Bonds is or will be payable annually in arrear and in respect of Floating Rate Bonds and Indexed Bonds is or will be payable semi-annually in arrear (or, in each case, as otherwise specified in the relevant Final Terms).

Redemption

The applicable Final Terms indicate or will indicate either that the relevant Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, or for taxation reasons if applicable, or following an Index Event or (subject to the terms of the STID) following an Event of Default) or that such Bonds will be redeemable at the option of the Issuer and/or the Bondholders upon giving notice to the Bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer, in each case as set out in the applicable Final Terms.

Redemption for Index Event, Taxation or Other Reasons

Upon the occurrence of certain index events (as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)), the Issuer may redeem all, but not some only, of the Indexed Bonds at their Principal Amount Outstanding together with accrued but unpaid interest and amounts in respect of indexation and any and all amounts due and payable by the Issuer to any Financial Guarantor under the Finance Documents. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Sub-Classes of Indexed Bonds are also redeemed.

In addition, in the event of the Issuer becoming obliged to make any deduction or withholding from payments in respect of the Bonds (although the Issuer will not be obliged to pay any additional amounts in respect of such deduction or withholding) the Issuer may (but is not obliged to) (a) use its reasonable endeavours to arrange for the substitution of another company incorporated in an alternative jurisdiction (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*) of the Bonds) and, failing this, (b) redeem (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons) of the Bonds*) all (but not some only) of the Bonds at their Principal Amount Outstanding (plus, in the case of Indexed Bonds, amounts in respect of indexation) together with accrued but unpaid interest. No single Class or Sub-Class of Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Bonds are also redeemed in full at the same time. In addition, if such Bonds are Wrapped Bonds, the Issuer shall also pay any and all such amounts due to the relevant Financial

Guarantor under the Finance Documents in respect of such Wrapped Bonds.

In the event of TWUL electing to prepay an advance funded by the proceeds of an issuance of a Sub-Class of Bonds (in whole or in part) under an Issuer/TWUL Loan Agreement, the Issuer shall be obliged to redeem all or the relevant part of such Sub-Class of Bonds or the proportion of the relevant Sub-Class which the proposed prepayment amount bears to the amount of the relevant advance under the relevant Issuer/TWUL Loan Agreement. Where TWUL, TWUF or, as the case may be, the Issuer has hedged its exposure in relation to such an advance under an Issuer/TWUL Loan Agreement funded by the proceeds raised from an issuance of a Sub-Class of Bonds, a TWUF/TWUL Loan Agreement or, in the case of the Issuer, the Bonds the proceeds of which have funded such Advance, in each case, under an RPI Linked Hedging Agreement, TWUL, TWUF or, as the case may be, the Issuer shall be obliged to reduce the notional amount of such RPI Linked Hedging Agreement by an amount equal to the amount of such prepayment and to pay any resulting termination payment.

The Financial Guarantors will not guarantee any of the amounts payable by the Issuer upon an early redemption, and their obligation will be to continue to make payments in respect of any Wrapped Bonds pursuant to the relevant Financial Guarantee on the dates on which such payments would have been required to be made had such early redemption not occurred.

The Issuer shall only be permitted to pay Early Redemption Amounts to the extent that in so doing it will not cause an Event of Default to occur or subsist.

Denomination of Bonds

Bonds have been and will be issued in such denominations as have been or may be agreed between the Issuer and the relevant Dealer save that (i) in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall, subject as otherwise mentioned below, be €50,000 (or its equivalent in any other currency as at the date of issue of the Bonds); and (ii) in any other case, the minimum specified denomination of each Bond will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Relevant Currency. See the section "*Certain Restrictions - Bonds with a maturity of less than one year*" above.

From the date of entry into force of the Amending Directive, Bonds which are admitted to trading on the Market and with a maturity date which falls after the implementation date of the Amending Directive in any relevant European Economic Area Member State must have a minimum specified denomination €100,000 (or its equivalent in any other currency as at the date of issue of such Bonds).

Taxation

Payments in respect of Bonds or under the relevant Financial Guarantee are or will be made without withholding or deduction

for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, unless and save to the extent that the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event and to that extent, the Issuer and, to the extent there is a claim under the relevant Financial Guarantee, the relevant Financial Guarantor will make payments subject to the appropriate withholding or deduction. Notwithstanding the foregoing, no additional amounts are or will be paid by the Issuer or the Guarantors or, to the extent there is a claim under the relevant Financial Guarantee, by the relevant Financial Guarantor in respect of any withholdings or deductions, unless otherwise specified in the applicable Final Terms.

Status of the Bonds

The Bonds in issue constitute and any future Bonds issued will constitute secured obligations of the Issuer. Each Class of Bonds ranks and will rank *pari passu* without preference or priority in point of security amongst themselves.

The Bonds represent the right of the holders of such Bonds to receive interest and principal payments from (a) the Issuer in accordance with the terms and conditions of the Bonds (the "**Conditions**") and the trust deed (the "**Bond Trust Deed**") entered into by TWUL, TWH, TWUF, TWUCFH, the Issuer and the Bond Trustee in connection with the Programme and (b) in the case of the Wrapped Bonds only, the relevant Financial Guarantor in certain circumstances in accordance with the relevant Financial Guarantee.

The Class A Wrapped Bonds and the Class A Unwrapped Bonds in issue rank, and any further Class A Wrapped Bonds and Class A Unwrapped Bonds issued under the Programme will rank, *pari passu* with respect to payments of interest and principal. However, only the Class A Wrapped Bonds have and will have the benefit of the relevant Financial Guarantee. All claims in respect of the Class A Wrapped Bonds and the Class A Unwrapped Bonds will rank in priority to payments of interest and principal due on all Class B Wrapped Bonds and Class B Unwrapped Bonds.

In the case of interest on Class B Bonds only, if, on any Payment Date prior to the taking of Enforcement Action after the termination of a Standstill Period, there are insufficient funds available to the Issuer (after taking into account any amounts available to be drawn under any DSR Liquidity Facility or from the Debt Service Reserve Accounts) to pay accrued interest on the Class B Bonds, the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the Payment Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest (including any interest accrued thereon). Interest will

accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class B Bonds.

In the case of principal on Class B Bonds only, if on any date, prior to the taking of Enforcement Action after the termination of a Standstill Period, on which such Bond is to be redeemed (in whole or in part) there are insufficient funds available to the Issuer to pay such principal, the Issuer's liability to pay such principal will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the Payment Priorities, sufficient funds to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred principal (including any accrued interest thereon). Interest will accrue on such deferred principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

Any Class B Wrapped Bonds and any Class B Unwrapped Bonds issued under the Programme will rank, *pari passu* with respect to payments of interest and principal. However, only the Class B Wrapped Bonds will have the benefit of the relevant Financial Guarantee.

Covenants

The representations, warranties, covenants (positive, negative and financial) and events of default which apply and will apply to, among other things, the Bonds are set out in the common terms agreement dated the Initial Issue Date (the "**CTA**"). See Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

Guarantee and Security

The outstanding Bonds in issue are, and further Bonds issued under the Programme will be, unconditionally and irrevocably guaranteed and secured by each of TWUL, TWUF, TWUCFH and TWH pursuant to a guarantee and security agreement (the "**Security Agreement**") entered into by each Obligor in favour of the Security Trustee over the entire property, assets, rights and undertaking of each such Obligor (the "**Security**"), in the case of TWUL to the extent permitted by the WIA and the Licence. Each such guarantee constitutes a direct, unconditional and secured obligation of each such Obligor. The Security is held by the Security Trustee on trust for the Secured Creditors (as defined below) under the terms of the Security Agreement and subject to the terms of the STID (as defined below).

Intercreditor Arrangements

The Secured Creditors, each Secondary Market Guarantor and each Obligor are and will each be a party to a security trust and intercreditor deed dated the Initial Issue Date (the "**STID**"), which regulates, among other things: (i) the claims of the Secured Creditors; (ii) the exercise and enforcement of rights by the Secured Creditors; (iii) the rights of the Secured Creditors and the Secondary Market Guarantors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during the occurrence of an Event of Default; (v) the Entrenched Rights and Reserved Matters of each Secured Creditor; and (vi) the giving of consents

and waivers and the making of amendments by the Secured Creditors and the Secondary Market Guarantors. See Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".

Status of Financial Guarantees in relation to Wrapped Bonds

Each Financial Guarantee issued in favour of the Bond Trustee in relation to each Sub-Class of Wrapped Bonds will constitute a direct, unsubordinated and unsecured obligation of the relevant Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application, pursuant to which the relevant Financial Guarantor will guarantee the timely payment of interest and principal (other than the FG Excepted Amounts) on the relevant Sub-Class of Wrapped Bonds.

Reimbursement

The Issuer will be obliged, pursuant to the terms of a guarantee and reimbursement deed with the relevant Financial Guarantor in respect of any Sub-Class or Sub-Classes of Wrapped Bonds, *inter alia*, to reimburse such Financial Guarantor in respect of payments made by it under the relevant Financial Guarantee or Financial Guarantees of such Sub-Class or Sub-Classes of Bonds. Each such Financial Guarantor will be subrogated to the rights of the relevant Class A Wrapped Bondholders or Class B Wrapped Bondholders against the Issuer in respect of any payments made under such Financial Guarantees. See Chapter 7 "*Overview of the Financing Agreements*" under "*Financial Guarantor Documents*".

Authorised Credit Facilities

Subject to certain conditions being met, the Issuer, TWUF and (for certain indebtedness) TWUL are permitted to incur indebtedness under authorised credit facilities (each an "**Authorised Credit Facility**") with an Authorised Credit Provider. These Authorised Credit Facilities may comprise loan, hedging, finance leases, liquidity facilities and other facilities (including Financial Guarantees) subject to the terms of the CTA and the STID and subject to certain types of facilities only being available to certain Obligors (e.g. finance leases will be limited to TWUL). Each Authorised Credit Provider is or will be party to the CTA and the STID and may have voting rights thereunder. The Existing Finance Lessors, the Existing Hedge Counterparties and the Existing Authorised Credit Provider constitute Authorised Credit Providers as from the Initial Issue Date. The Credit Facility Providers, the DSR Liquidity Facility Providers and the O&M Reserve Facility Providers constitute Authorised Credit Providers as from the date of entry into the Credit Facility Agreement, the DSR Liquidity Facility Agreement and the O&M Reserve Facility Agreement, respectively. See Chapter 7 "*Overview of the Financing Agreements*".

Initial Credit Facility

On 30 August 2007, the Initial Credit Facility Providers provided an Authorised Credit Facility to the Issuer (the "**Initial Credit Facility**") in the form of a revolving credit facility comprising (i) a £200 million tranche available until the third anniversary of the Initial Issue Date, pursuant to on-lending under the Initial Issuer/TWUL Loan Agreement, to fund the working capital requirements of TWUL (including, for the avoidance of doubt, the refinancing of debt) (the "**Working Capital Facility**"); and (ii) a £550 million tranche available until the third anniversary of the Initial Issue Date, pursuant to on-lending under the Initial

Issuer/TWUL Loan Agreement, to fund the capital expenditure and general corporate purposes of TWUL (the "**Capital Expenditure Facility**"). The proceeds of any drawing under the Working Capital Facility and the Capital Expenditure Facility were on-lent by the Issuer to TWUL pursuant to the Initial Issuer/TWUL Loan Agreement. The Issuer subsequently cancelled and repaid the Initial Credit Facility, and has entered into a new facility agreement on 18 September 2009 with the Credit Facility Providers on the same terms as the Initial Credit Facility.

DSR Liquidity Facility

Pursuant to the terms of each DSR Liquidity Facility Agreement, the DSR Liquidity Facility Providers make available to each of the Issuer and TWUF a 364-day revolving credit facility to enable drawings to be made by the Issuer or, as the case may be, TWUF in circumstances where TWUL has or will have insufficient funds available to it on a Payment Date to pay scheduled interest or certain other payments under the Authorised Credit Facilities of TWUL (including the Issuer/TWUL Loan Agreements and the TWUF/TWUL Loan Agreements), to enable the Issuer or, as the case may be TWUF, to make payments due on the Bonds, the Unsecured TWUF Bond Debt or certain other Senior Debt. Each of the Issuer and TWUF are obliged, pursuant to the CTA, to maintain through DSR Liquidity Facilities and/or amounts in the Debt Service Reserve Accounts an amount or amounts which is/are in aggregate at least equal to the aggregate of projected interest payments on the Class A Debt, the Class B Debt and the Unsecured TWUF Bond Debt for the succeeding 12 months (after taking into account the impact thereon of any Hedging Agreement then in place).

O&M Reserve Facility

The O&M Reserve Facility Providers make available to the Issuer a liquidity facility in an amount equivalent to 10 per cent. of TWUL's Projected Operating Expenditure and Capital Maintenance Expenditure for the succeeding 12 months (as estimated by TWUL), the proceeds from which are and will be on-lent by the Issuer to TWUL for the purpose of meeting TWUL's unfunded operating and maintenance expenses.

Listing

The Bonds issued on the Initial Issue Date and all subsequent issues of Bonds under the Programme up to the date of this Prospectus have been admitted to the Official List and to trading on the Market and an application will be made to admit any additional Bonds issued under the Programme to the Official List and to admit them to trading on the Market. Any additional Bonds may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.

Unlisted Bonds may also be issued. The applicable Final Terms will state whether or not the relevant Bonds are to be listed and, if so, on which stock exchange(s).

Ratings

The ratings assigned by the Rating Agencies to any Class A Wrapped Bonds and Class B Wrapped Bonds issued under the Programme will be based solely on the debt rating of the Relevant Financial Guarantor appointed and reflect only the views of the Rating Agencies. The ratings assigned by the Rating Agencies to the Class A Unwrapped Bonds and Class B Unwrapped Bonds will reflect only the views of the Rating Agencies. The initial

ratings of a Series of Bonds will be specified in the relevant Final Terms.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Each of Standard & Poor's and Moody's is a credit rating agency established and operating in the European Community prior to 7 June 2010 and has submitted an application for registration in accordance with the CRA Regulation and as at the date of this Prospectus, such application for registration has not been refused.

A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of TWUL or, in the case of the Class A Wrapped Bonds and the Class B Wrapped Bonds, of the Relevant Financial Guarantor from time to time.

Governing Law

The Bonds will be governed by, and construed in accordance with, English law.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Bonds in the United States, the United Kingdom, the Cayman Islands and such other restrictions as may be required in connection with the offering and sale of a particular Sub-Class of Bonds. See Chapter 12 "*Subscription and Sale*".

Investor Information

TWUL is required to produce an investors' report (the "**Investors' Report**") semi-annually to be delivered within 180 days from 31 March or 90 days from 30 September of each year. Such Investors' Report will include, among other things: (i) a general overview of the TWUL business in respect of the six month period ending on the immediately preceding Calculation Date; (ii) the calculations of the Class A ICR, Class A Adjusted ICR and the Senior Adjusted ICR for each Test Period (historic and projected); (iii) the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest for the twelve month period ending on such Calculation Date; (iv) the Class A RAR and Senior RAR (historic and projected); and (v) reasonable detail of the computations of these financial ratios.

Each such Investors' Report has been and will be made available by TWUL and the Issuer on TWUL's website.

CHAPTER 3
OVERVIEW OF THE FINANCING STRUCTURE

The TWU Financing Group consists of TWH, TWUL, TWUCFH, TWUF and the Issuer.

FIGURE 1 - OWNERSHIP STRUCTURE

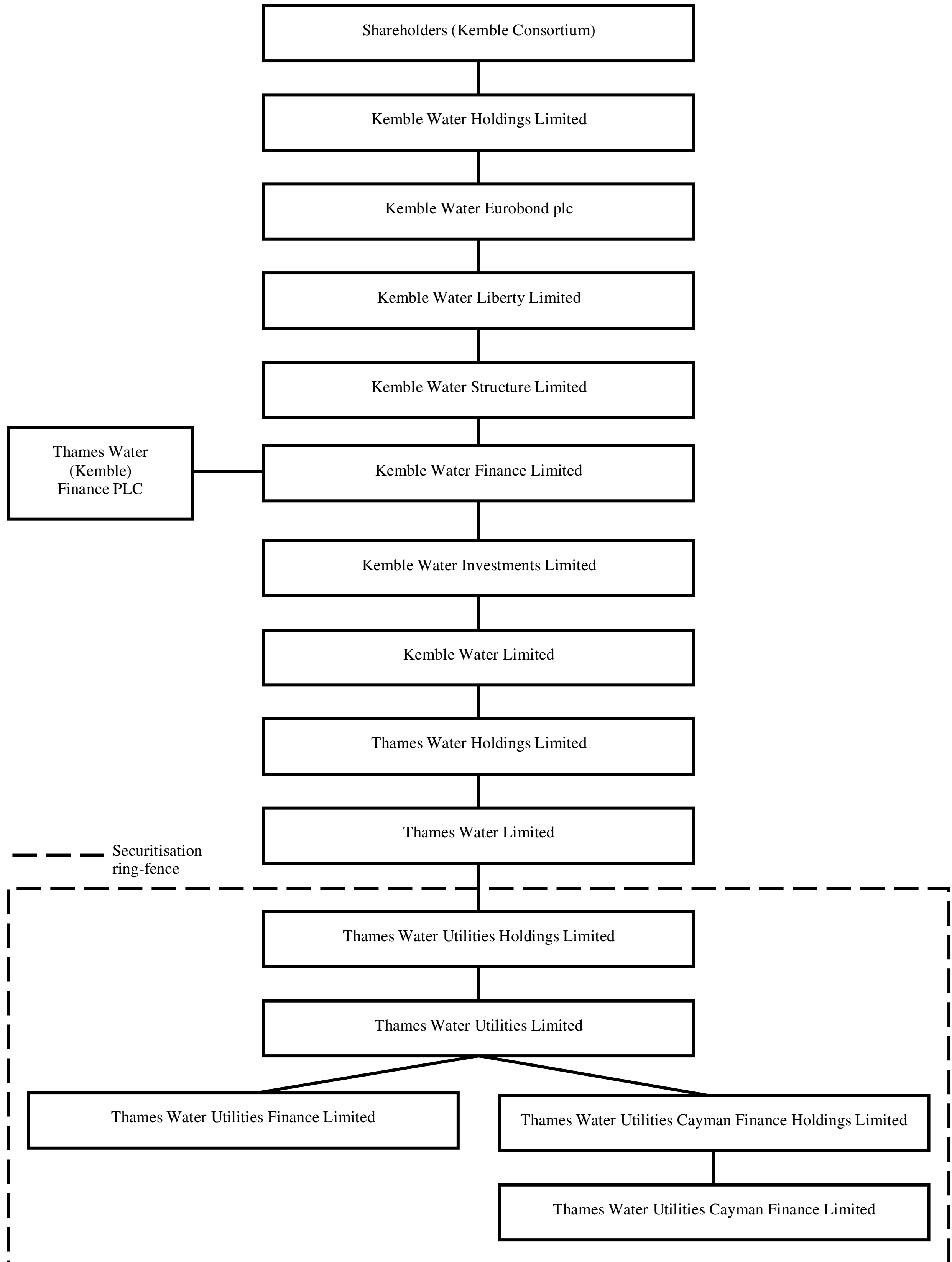
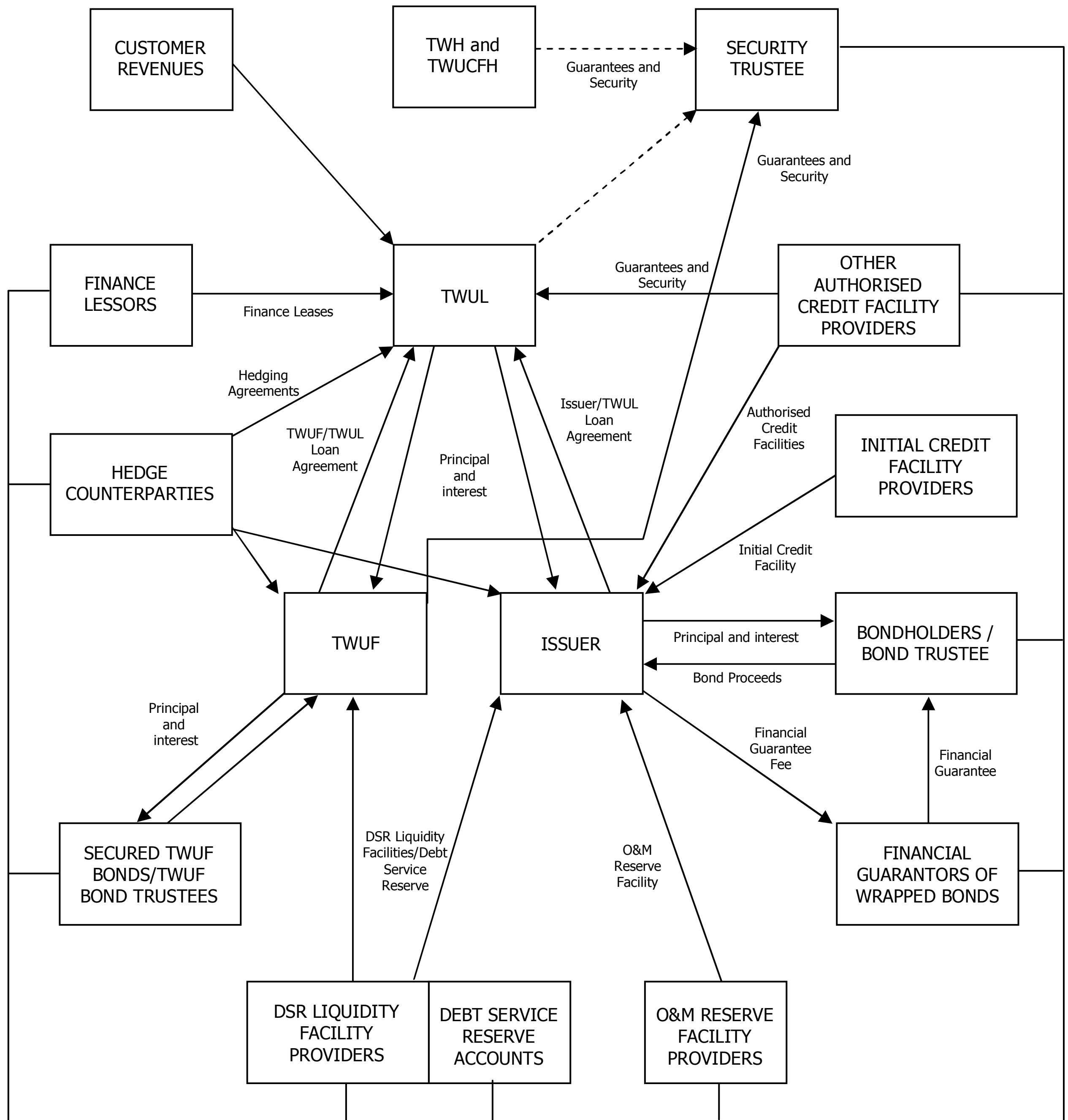


Figure 1 illustrates the ownership structure of the TWU Financing Group, together with an outline of the upstream shareholding structure, as at the date of this Prospectus:

- The Issuer is a wholly-owned subsidiary of TWUCFH.
- TWUCFH is a wholly-owned subsidiary of TWUL.
- TWUF is a wholly-owned subsidiary of TWUL.
- The entire issued ordinary share capital of TWUL is held by TWH, whose entire issued share capital is held by the Parent, which is outside the ring-fence.
- TWH is a special purpose vehicle incorporated to be the holding company of TWUL, TWUF and the Issuer, to enter into the Finance Documents and, in particular, to grant security over the shares of its subsidiaries pursuant to the Security Agreement.
- TWUCFH is a special purpose vehicle incorporated to be the holding company of the Issuer, having acceded to certain of the Finance Documents (as required by the STID and the CTA) on 15 October 2007, and, in particular, having granted security over the shares of the Issuer pursuant to the Security Agreement.

FIGURE 2 - PROGRAMME STRUCTURE



- The Issuer may under the Programme issue Class A Wrapped Bonds (guaranteed as to scheduled principal and interest by a Financial Guarantor), Class A Unwrapped Bonds, Class B Wrapped Bonds (guaranteed as to scheduled principal and interest by a Financial Guarantor) and Class B Unwrapped Bonds.

- The Issuer and TWUF may also borrow money from Authorised Credit Providers under Authorised Credit Facilities for funding the working capital and capital expenditure requirements of TWUL, to service and repay the TWU Financing Group's indebtedness and for the TWU Financing Group's general corporate purposes.

- The Issuer may additionally borrow money from O&M Reserve Facility Providers under O&M Reserve Facility Agreements for funding the operating and maintenance expenditure of TWUL.

- The advances made by the Issuer to TWUL under the Initial Issuer/TWUL Loan Agreement on the Initial Issue Date reflected the corresponding amount and terms of borrowing by the Issuer of each Sub-Class of Bonds and each borrowing under the relevant Authorised Credit Facilities on the Initial Issue Date and, to the extent that such borrowing is hedged under a Hedging Agreement, the terms of such Hedging Agreement. The advances made by TWUF to TWUL under the TWUF/TWUL Loan Agreements reflected the corresponding amount and terms of borrowing by TWUF of the TWUF Bonds and each borrowing under the relevant Authorised Credit Facilities and, to the extent that such borrowing is hedged under a Hedging Agreement, the terms of such Hedging Agreement.

- The Issuer has on-lent and will on-lend to TWUL the proceeds of each Series of Bonds issued after the Initial Issue Date and each advance to the Issuer under each Authorised Credit Facility after the Initial Issue Date, pursuant to an Issuer/TWUL Loan Agreement. TWUF will on-lend to TWUL each advance to TWUF under each Authorised Credit Facility pursuant to a TWUF/TWUL Loan Agreement.

- The Existing Finance Lessor provides financing of equipment to TWUL. Additional finance lessors may provide financing of equipment to TWUL following the Initial Issue Date.

- Where applicable, each of TWUL, TWUF and/or the Issuer are required to hedge their respective interest rate and currency exposure under the Issuer/TWUL Loan Agreements, the TWUF/TWUL Loan Agreements, Authorised Credit Facilities and/or the Bonds (as appropriate) by entering into interest and currency swap agreements and other hedging arrangements with Hedge Counterparties in accordance with the Hedging Policy. The economic effect of any hedging entered into by the Issuer is or will be passed on to TWUL through the relevant Issuer/TWUL Loan Agreement and the economic effect of any hedging entered into by TWUF is or will be passed on to TWUL through the relevant TWUF/TWUL Loan Agreement.

- The Issuer's obligations to repay principal and pay interest on the Bonds and under each Authorised Credit Facility to which it is party as borrower are intended to be met primarily from the payments of principal and interest received from TWUL under the Issuer/TWUL Loan Agreements and where such payment has been hedged under a Hedging Agreement, under the relevant Hedging Agreement. Each Issuer/TWUL Loan Agreement will provide for payments to become due from TWUL to the Issuer on dates and in amounts that match the obligations of the Issuer to its various financiers under its financial arrangements plus a certain profit margin. The payments of principal and interest received from TWUL under the Issuer/TWUL Loan Agreements have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Bonds.

- The Issuer and/or TWUF may withdraw sums standing to the credit of the Debt Service Reserve Accounts and/or draw under any DSR Liquidity Facility to on-lend to TWUL to enable TWUL to meet any shortfall in the amounts available to TWUL on any Payment Date to pay scheduled interest and certain other payments under Authorised Credit Facilities of TWUL (including the Issuer/TWUL Loan Agreements and the TWUF/TWUL Loan Agreements), to enable the Issuer and TWUF to meet interest payments on the Bonds and certain other payments ranking in priority to or *pari passu* with the Bonds (excluding any principal repayments on Bonds).

- The respective obligations of TWUL, TWUF, TWUCFH and the Issuer to each of their Secured Creditors are guaranteed by each other in favour of the Security Trustee. TWH has in turn guaranteed in favour of the Security Trustee the respective obligations of TWUL, TWUF, TWUCFH and the Issuer.

- The obligations of each of TWUL, TWUF, TWUCFH, the Issuer and TWH are secured in favour of the Security Trustee under the terms of the Security Agreement.
- The guarantees and security granted by the Obligors are held by the Security Trustee for itself and on behalf of the Secured Creditors under the terms of the STID, which regulates the rights and claims of the Secured Creditors (and the rights of the Secondary Market Guarantors to vote in relation thereto) against the Obligors and the duties and discretions of the Security Trustee.

CHAPTER 4
RISK FACTORS

The Issuer and the other Obligors believe that the following factors may affect their ability to fulfil their obligations (including the payment of principal and interest) under the Bonds issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Issuer, TWUL nor the other Obligors are in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the other Obligors believe may be material for the purpose of assessing the market risks associated with Bonds issued under the Programme are also described below.

The Issuer, TWUL or the other Obligors believe that the factors described below represent the principal risks inherent in investing in Bonds issued under the Programme, but the Issuer, TWUL or the other Obligors may be unable to pay interest, principal or other amounts on or in connection with any Bonds for other reasons and the Issuer, TWUL or the other Obligors do not represent that the statements below regarding the risks of holding any Bonds are exhaustive. There may be additional risks that the Issuer, TWUL or the other Obligors currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision. Further, any prospective Bondholder should take its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment. Bondholders may lose the value of their entire investment in certain circumstances.

In addition, while the various structural elements described in this document are intended to lessen some of these risks for holders of the Bonds, there can be no assurance that these measures will ensure that the holders of the Bonds of any Sub-Class receive payment of interest or repayment of principal from the Issuer in respect of such Bonds, or from a Financial Guarantor in respect of the Class A Wrapped Bonds or Class B Wrapped Bonds, on a timely basis or at all. Investors may lose all or part of their investment.

Regulatory and Competition Considerations

The water industry is subject to extensive legal and regulatory controls and TWUL must comply with all applicable laws, regulations and regulatory standards, some of which are described in Chapter 6 "Regulation of the Water and Wastewater Industry in England and Wales". The application of these laws, regulations and standards and the policies published by Ofwat could have a material adverse impact on the business, financial condition or results of operations of TWUL.

In this context, in particular, potential investors should be aware of the following:

Licence

Under the WIA, the Licence Conditions may be modified by Ofwat with the consent of TWUL or without TWUL's consent following a reference to the Competition Commission where the Competition Commission concludes that there are effects adverse to the public interest which can be remedied or prevented by modifications. Modifications could also result from a decision on a merger or market investigation reference by the Competition Commission. In addition, the Secretary of State for the Environment, Food and Rural Affairs (the "**Secretary of State**") has a power to veto certain proposed modifications agreed by Ofwat and TWUL. Other proposed modifications agreed by Ofwat and TWUL may be vetoed if it appears to the Secretary of State that the modifications should only be made, if at all, after a reference to the Competition Commission. Finally, primary legislation can create powers for the making of unilateral modifications by Ofwat without the consent of Regulated Companies. In April 2009, Defra put forward a draft flood and water management bill (the "**Flood and Water Management Bill**") containing a proposal to introduce a new way of modifying the Licence Conditions. Although these provisions were not ultimately included in the Flood and Water Management Act (the "**FWMA**"), the previous Government signalled its intention to bring forward new legislation for these powers at a later date. The new Government has thus far not commented on

this point. Any restrictive modification to the Licence Conditions could have a material adverse impact on TWUL.

A failure by TWUL to comply with the Licence Conditions or certain statutory duties, as modified from time to time, may lead to the making of an Enforcement Order by Ofwat or the Secretary of State, or the imposition by Ofwat of financial penalties of up to 10 per cent. of TWUL's turnover, which could have an adverse impact on TWUL. Failure by TWUL to comply with any Enforcement Order (as well as certain other defaults) may lead to the making of a Special Administration Order. See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Special Administration Orders*".

In response to the Gray Review of Ofwat, in November 2010 Ofwat called for legislation to enable the introduction of a modular licensing framework. Ofwat argued that the amendment would allow licence conditions to be written more clearly and would also allow licences to be targeted and proportionate for the type of activity being licensed. It is anticipated that the Government will provide its response to the Gray Review in the Water Industry White Paper (the "**White Paper**") .

The area of appointment of TWUL can also be varied in accordance with an inset appointment (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Termination of a Licence*"). Licence variations were made to TWUL's licence to facilitate five inset appointments during the financial year 2010/11.

Termination of the Licence

Under the terms of the Licence, TWUL's appointment may be terminated without its consent following the giving of notice by the Secretary of State of at least 25 years. The Licence may also be transferred from TWUL at any time following the making of a Special Administration Order. The termination, non-renewal or transfer of the Licence could have a material adverse impact on TWUL and, consequently, on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

If the Secretary of State or Ofwat were to make an appointment or variation replacing TWUL as the regulated water and sewerage undertaker for its currently appointed area, they would have a duty to ensure (so far as consistent with their other duties under the WIA) that the interests of TWUL's creditors were not unfairly prejudiced by the terms on which the successor Regulated Company (or Companies) replacing TWUL could accept transfers of property, rights and liabilities from TWUL.

Thus far there is no precedent to indicate how compulsory licence terminations or Special Administration Orders would work in practice for Regulated Companies with water licence customers and with activities regulated by the water supply licensing ("**WSL**") regime, nor is there any precedent for such Regulated Companies to indicate the extent to which creditors' interests would be protected (see paragraphs on "*Security*" and "*Special Administration*" below).

Competition in the water industry

Ofwat have taken steps to introduce competition into the water supply and sewerage market via inset appointments and the WSL regime:

Inset appointments: Inset appointments allow one Regulated Company to replace another as the provider of water or wastewater in a specified geographical area within another Regulated Company's appointed territory. Inset appointments give rise to a potential material adverse impact with TWUL facing increased competition for business customers and the provision of services as a result of inset appointments affecting its Water Region and Sewerage Region.

Since 1997, Ofwat have granted 32 inset appointments across England and Wales. Since July 2009, nine of these 32 inset appointments have been granted within TWUL's region. For each inset site, TWUL receives revenue for the provision of water supply and sewerage services. TWUL has had recent discussions with two companies regarding their intention to apply for up to four further inset appointments within the Region (as defined in Chapter 5 "*Description of the TWU Financing Group*" under "*TWUL - Operational and Financial Overview*" below).

Water Industry White Paper

The Government has committed to publishing the White Paper during 2011 which will focus on the future challenges facing the water industry including maintaining water supplies, keeping bills affordable and reducing regulation.

The White Paper may include proposals for the reform of the overall structure of the water industry which may include legal separation of the wholesale and retail functions of the Regulated Company's businesses. If these proposals are included in the White Paper and these are enacted as law, they would have the potential to significantly and adversely impact TWUL's business, results of operations, profitability and/or TWUL's financial condition.

Bondholders should note the potential risks to TWUL's business should the White Paper contain the above mentioned language.

WSL regime: The Water Act contained certain changes to the regulatory system applicable to the water industry. Ofwat and the Secretary of State are required to protect customer's interests by promoting effective competition in relation to water and wastewater services wherever appropriate as a primary rather than secondary duty.

The Water Act amended the WIA and introduced the WSL regime, as described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*". To date, eight companies have been granted water supply licences by Ofwat, although only six remain. As at the date of this Prospectus, TWUL has not received any applications from water supply licensees to supply to premises within the Region. At present, holders of WSLs are only permitted to supply customers using in excess of 50 megalitres ("**Ml**") of water per annum. On 9 February 2011, the Secretary of State announced the Government's intention to reduce this threshold to 5 Ml. No date for this threshold reduction has been proposed but TWUL believe that it may occur as soon as autumn 2011. Ofwat are currently consulting on proposals to increase the effectiveness of the market by introducing common access terms across England and Wales. For the period covered by TWUL's annual return to Ofwat covering its activities in the previous financial year (the "**2010 June Return**"), 321 water supply customers using more than 50 Ml per annum were supplied by TWUL, generating revenues of £30.8 million (representing approximately 3.8 per cent. of total water revenues as reported in the 2010 June Return). At present there are approximately 6,300 eligible properties supplied by TWUL using more than 5Ml per annum. These properties generate revenues of £127m (representing approximately 16 per cent. of total water revenues as reported in the 2010 June Return). The ability of TWUL's existing qualifying customers to choose to obtain their water supply from a different supplier could adversely affect TWUL's turnover, which could adversely affect TWUL's business, results of operations, profitability or financial condition.

The Cave Review and Ofwat: In February 2008, Defra and HM Treasury commissioned an independent review of competition and innovation in water markets (the "**Cave Review**"). The review, led by Professor Martin Cave, was asked to consider the scope to deliver benefits and drive innovation through developing competition and contestability in all aspects of the supply chain in the water and sewerage sector, and to make recommendations to Government regarding the required changes to legislative and regulatory frameworks. The Cave Review was initiated in response to Ofwat's recommendation of further measures to increase competition in water and sewerage services. Ofwat recommended that progressive steps be taken to separate vertically contestable markets from natural monopoly activities in the water and sewerage industries, moving towards separated price controls before Ofwat begin to set price limits for the period after 2015.

The Competition Act: Ofwat have also stated that they will use their powers under the Competition Act, which provides Ofwat and the OFT with the power to investigate and prohibit anti-competitive agreements and conduct relating to the water and sewerage sectors (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "Competition in the Water Industry"). These powers include the power to impose fines of up to 10 per cent. of worldwide group-wide turnover for the business year preceding the finding of the infringement. Any agreement which infringes the Competition Act may be void and unenforceable. Breaches of the Competition Act may also give rise to claims for damages from third parties. During 2010/2011, Ofwat withdrew much of their detailed guidance covering, for example, Water Supply Licensing market pricing. Ofwat have

stated a clear requirement for companies to satisfy themselves that they are compliant with all of the relevant laws.

OFT Study into Organic Waste Markets

The OFT is carrying out a study into the markets for organic waste including sewage sludge and is expected to report in July 2011. The outcome of this study will likely be a range of options for Ofwat to consider, including the possible deregulation of sewage sludge treatment and disposal. If such deregulation takes place, the key issue will be the treatment of the sludge assets in terms of the RCV attached to such assets. Given the uncertainty, it remains unclear whether this represents a risk or a potential opportunity for TWUL.

TWUL Revenue and Cost Considerations

The net operating revenues generated by TWUL from its water and sewerage business less the significant capital expenditure required to maintain the network presents the risk that the cash generated by the business may not be sufficient to enable it to make full and timely payment of amounts due to creditors including under the Issuer/TWUL Loan Agreements. This could have a material adverse impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds. In addition to the regulatory and competition risks described above which could adversely affect the revenues and costs of TWUL, other potential events which could result in TWUL having insufficient net operating revenues to meet its financing obligations include:

Periodic Review and Interim Determinations

The turnover, profitability and cashflow of the Appointed Business is substantially influenced by the service levels, regulatory targets and price limits established every five years by Ofwat in their Periodic Review, and Ofwat's assessment of delivery against those factors. A more detailed description of the process under which Ofwat determine price limits for TWUL is described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

In October 2010, Ofwat announced that they were considering the introduction of separate price limits for the retail and wholesale parts of the water and wastewater value chain which would commence in 2014/15. Concurrently, Ofwat are also considering whether and to what extent they should further separate price limits for the wholesale parts of the value chain. Ofwat published their high level approach in April 2011 which suggests that there will be two price controls at Periodic Review 2014, of which:

(a) one will be for retail; and

(b) one will be for 'network plus' (everything that is not retail).

Ofwat have the power to conduct wholesale price determinations for:

(a) prices in accordance with the costs principle set out in section 66E of the Water Act 2003; and

(b) prices of bulk supply in accordance with Section 40 and Section 40A of the WIA 1991.

However Condition B of TWUL's licence, as currently drafted, obliges Ofwat to set a revenue requirement for TWUL as a whole. The manner in which future revenue requirements are set will need to be consistent with Condition B.

Although Ofwat have a duty to act in the manner they consider is best calculated to secure that TWUL is able to finance the proper carrying out of its functions (amongst other primary duties), an adverse price determination, which would adversely affect turnover, profitability and cashflow and, consequentially, the ability to maintain an investment grade issuer credit rating in accordance with the Licence (as described in Chapter 5 "*Description of the TWU Financing Group*" under "*Ring-fencing and the TWU Financing Group*") may occur as a result of a number of factors, including an inadequate

allowed cost of capital or regulatory assumptions concerning operating expenses and required capital expenditure as well as turnover forecasts proving not to be sufficiently accurate. In addition, unforeseen financial obligations or costs may arise (for example, as a result of ensuring regulatory compliance or changes to legislation or regulatory requirements, some instances of which are provided below) after a Periodic Review which were not taken into account by Ofwat in setting price limits and are consequently not compensated for, which could adversely affect financial performance.

As described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Interim Determinations of K*", an IDOK may be made between Periodic Reviews in specified circumstances, including, in the cases of TWUL and most other Regulated Companies, which have the benefit of a substantial effects clause in the Licence (the "**Substantial Effects Clause**"), the circumstances contemplated by that clause. In contrast to Periodic Reviews, the methodology to be applied for any IDOK is set out in detail in the Licence.

Under the Substantial Effects Clause in the licence of a Regulated Company, the Regulated Company or Ofwat are permitted to request price limits to be reset if its Regulated Business either: (i) suffers a substantial adverse effect which could not have been avoided by prudent management action; or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action.

There is however no assurance that any IDOK sought by TWUL will be made or, if an IDOK or determination pursuant to the provisions of the Substantial Effects Clause is made, that any adjustment made pursuant to such an IDOK, or determination pursuant to the Substantial Effects Clause, as the case may be, will provide adequate revenue compensation to TWUL.

Where funding is considered during an Ofwat determination, Ofwat may determine that the anticipated cost of fulfilling certain obligations is likely to be less than the cost actually incurred by TWUL in fulfilling those obligations. In these circumstances, the funding allowed by Ofwat may not totally cover the actual costs and TWUL would be required to bear this additional element. In practice, the funding allowed by Ofwat is set for a package of obligations and it is likely that some will cost more than expected and some less.

Revenue Deviations from Ofwat's projections

Under Licence Condition B, which relates to the level of TWUL's charges for the supply of water and the provision of sewerage services, the RPI+K price cap limits the annual "weighted average increase" in the standard charges of TWUL. This, in turn, is calculated by reference to the "tariff basket formula" (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Price Control*"). Historically TWUL has borne the risk of revenue loss arising from any deviations during each Periodic Review Period from projections, including demographic changes affecting the customer base, the loss of a major customer, unexpected reductions in customers or movements in the volumes that are consumed/discharged by customers, and loss of business through inset appointments.

For the Periodic Review in 2009, Ofwat introduced a revenue correction mechanism, covering the AMP5 Period (as defined in Chapter 5 "*Description of the TWU Financing Group*" under "*Regulation and Licence*" below). Under this mechanism, revenue requirements for the next Periodic Review Period will be reduced or increased by the amount of any under-recovery or over-recovery of revenues from charges in the tariff basket between 2010 and 2015, relative to those assumed in the price limits set by Ofwat subject to the rules of the mechanism. It will also include an adjustment so that companies have an incentive to maintain accurate billing records. This incentive would operate principally by increasing or decreasing the revenue correction by an "efficient billing factor"(being the cost that an efficient company incurs in finding and billing an additional property) for every property actually found and billed by the company above or below the number that Ofwat expect.

Since actual out-turn revenues are used as the basis for the setting of price limits in the subsequent five-year period, any deviation from revenue projections in the previous five-year period may be reflected in such price limits.

Capital Expenditure Incentive Scheme

Ofwat have also introduced a new incentive mechanism for capital expenditure called the Capital Expenditure Incentive Scheme ("**CIS**"). Under the CIS, Regulated Companies recover their actual capital expenditure for the prescribed outputs in AMP5 (as defined in Chapter 5 "*Description of the TWU Financing Group*" under "*Regulation and Licence*" below), plus or minus revenue rewards or penalties that depend on how closely their expenditure forecasts compare to their actual expenditure.

The CIS allows for symmetric treatment of capital expenditure over-spends and under-spends for the prescribed outputs in AMP5. This means that if a Regulated Company chooses to spend more than Ofwat's expenditure forecast, any over-spends of capital expenditure will be reflected in the return on investment of the business following the next Periodic Review, but this will also result in lower outperformance incentives and reduced returns within the price limit period (in line with the CIS rewards/penalties structure). The CIS process is new for AMP5 and has not been tested operationally.

Failure by TWUL to deliver its capital investment programme

The Appointed Business requires significant capital expenditure for additions to, or replacement of, plant and equipment for its water supply and sewerage facilities and networks. The price limits set by Ofwat every five years take into account Ofwat's view of the level of capital expenditure expected to be incurred during the relevant Periodic Review Period and the associated funding costs and operating costs (although, as explained above, while Ofwat considered all the costs envisaged by TWUL in its strategic business plan, Ofwat came to a different view from that of TWUL for the 2009 Final Determination (as defined in Chapter 5 "*Description of the TWU Financing Group*" under "*Regulation and Licence*" below)).

If TWUL is unable to deliver its capital investment programme at expected expenditure levels, or is unable to secure the expected level of efficiency savings on its capital investment programme, or the programme falls behind schedule or contains incorrect assumptions by TWUL as to the capital investment required, TWUL's profitability or performance might suffer because of a need for increased capital expenditure. Ofwat may also factor such failure into future Periodic Reviews by seeking to recover amounts equivalent to the "allowed costs" of any parts of the programme that are not delivered. TWUL's ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in fines imposed by Ofwat of an amount up to 10 per cent. of turnover or other sanctions and further increases in capital expenditure and operating expenditure.

Failure to deliver operational performance or cost savings implicit in the Periodic Reviews

Operating cost savings to be achieved during the AMP5 Period are implicit in the Periodic Review. To assist the achievement of these operating cost savings, efficiency programmes are underway. If the operating cost savings are not achieved, or the efficiency programmes are not delivered, then TWUL's profitability will suffer. Similarly, if operational performance were to deteriorate, this deterioration may be reflected by less favourable outcomes in future Periodic Reviews which could cause TWUL's profitability to suffer.

Sewer flooding

TWUL's sewerage systems (as described more fully in Chapter 5 "*Description of the TWU Financing Group*") can, during prolonged heavy rainfall, reach their hydraulic capacity, resulting in flooding. As it is not possible to forecast the occurrence of sewer flooding and its effects sufficiently far in advance, forward planning and the making of full and reliable provision for the effects, or the alleviation of the risk, of sewer flooding is difficult. The financial costs of measures required to deal with sewer flooding, or measures designed to alleviate the risk of sewer flooding to properties which become at risk, may therefore not be taken into account fully in a Periodic Review, which could be significant and could adversely affect TWUL's business, results of operations, profitability or financial condition.

Adoption of Private Sewers

As set out in Chapter 5 "*Description of the TWU Financing Group*", the Government has announced its

intention to proceed with the transfer of private sewers and lateral drains to sewerage undertakers (including TWUL). This is expected to occur in October 2011 except for privately-owned and operated pumping stations, which are to transfer gradually over a 5 year period.

TWUL is expecting to have to undertake a programme of capital investment to upgrade these private sewage pumping stations, and some of this investment is likely to take place within the current AMP Period. The transfer of private sewers and lateral drains in the Region will lead to an increase in TWUL's operating costs from the date of transfer, as all of the liabilities in respect of these sewers will also transfer to TWUL. The costs associated with the transfer and ongoing operation and maintenance of the transferred private sewers have not been allowed for in the 2009 Final Determination, but Ofwat have confirmed that implementation of the transfer will qualify as a relevant change of circumstances under Part IV of Licence Condition B. The additional costs will be a Notified Item as the increased operational costs associated are expected to be in the region of £20 - 30 million per annum and the additional capital expenditure costs are expected to be approximately £30 million for the next three/four years. Despite the additional costs qualifying as a Notified Item, a risk remains that TWUL may not be fully compensated for the additional costs it incurs.

During the next Periodic Review and through the Final Determination 2015, these costs will be included in the normal costs of business for TWUL and are expected to be funded accordingly.

It should be noted that whilst the Government has signalled its intention to implement this transfer, this may still be subject to review.

Risk arising from the Thames Tunnel

As set out in Chapter 5 "Description of the TWU Financing Group – Sewerage Services – Discharges of Sewage into the Tidal River Thames – London Tideway Improvements ", in March 2007 the Government decided to support the development and implementation of the full tunnel and treatment solution in respect of the Tideway Tunnel Project, which requires the completion of both the Lee Tunnel and the Thames Tunnel.

The Lee Tunnel, which is funded through the CIS model, has an advanced timetable. Work began in 2010 and the tunnelling work is due to commence in 2012 and be completed in 2014. The commissioning of the tunnel is expected to take place in late 2015.

The Thames Tunnel is a significantly more major undertaking, with estimates indicating that the capital cost may be in excess of one third of TWUL's total RCV at the end of the AMP5 period (once capital expenditure, indexation and the cost of financing have been taken into account) and represents a significant concentration of risk in the development of one single asset. These risks include, but are not limited to: delays in planning, inability to secure necessary land, cost overruns, tunnelling collapse, loss of tunnel boring machines, flooding, potential unquantifiable third party claims for consequential damage and unquantifiable reputational risks. The risks also include force majeure events that cannot be anticipated. Such risks have the potential to significantly and adversely impact the Thames Tunnel project, can rarely be quantified and are for the most part uninsurable.

In respect of initial work on the Thames Tunnel, TWUL has been funded through the 2009 Final Determination in respect of the current AMP period. This initial work includes obtaining planning permission, concept design work, site investigation work, land acquisition and public consultation (the first phase of such public consultation has now been completed). To the extent that the costs of land acquisition exceed the sums included in the 2009 Final Determination such costs are a Notified Item.

TWUL is not currently funded in respect of the Thames Tunnel beyond such initial work. Given the size and scale of the undertaking, and the risks involved, TWUL is therefore in discussions with both Ofwat and Defra as to the most appropriate delivery route for the remainder of the Thames Tunnel project – including the construction of the Thames Tunnel itself. A number of possible funding and delivery models, including possible delivery by a specialist project company appointed under the FWMA, are being considered between TWUL, Ofwat and Defra.

Nevertheless, there is a risk that TWUL does not reach a satisfactory conclusion with Ofwat and Defra as to a feasible delivery model for the Thames Tunnel. In this event TWUL may be required to carry

out the Thames Tunnel project with insufficient funding and/or insufficient insulation from the risks inherent in the delivery of the Thames Tunnel. TWUL may have to fund additional capital investment during and after AMP5 which is not in the 2009 Final Determination.

Investors should note that if, and to the extent that, TWUL cannot reach agreement with Ofwat and Defra as to an appropriate funding and risk insulation model, subject to the considerations noted below, there is a risk that TWUL's ability to carry out and finance its regulated activities and its financial condition may be materially adversely affected.

However, investors have a number of covenant protections in respect of such risks including (i) the obligation on the Obligors to ensure that TWUL maintains an investment grade credit rating and (ii) restrictions on the payment of dividends in the case of the Trigger Event in respect of financial covenants, or Variance in respect of Capital Expenditure on the Thames Tunnel where there is no written confirmation given by Ofwat that such Variance will be added to the RCV.

Furthermore, as described in Chapter 6 "Regulation of the Water and Wastewater Industry in England and Wales – Ofwat and the Secretary of State" Ofwat have a primary duty under the WIA to exercise and perform their duties under the WIA in the manner they consider best calculated to, amongst other things, secure that Regulated Companies are able to finance the proper carrying out of their functions. In addition, it is a condition of TWUL's licence that it uses all reasonable endeavours to maintain an investment grade rating.

Non-recovery of customer debt

Non-recovery of customer debt is a risk to TWUL and may cause TWUL's profitability to suffer. This risk is exacerbated by the WIA, which prohibits the disconnection for non-payment of a water supply for dwellings and some other specified premises and the limiting of a supply with the intention of enforcing payment for domestic use in dwellings and some other specified premises, although allowance is made by Ofwat in the price limits at each Periodic Review for a proportion of debt deemed to be irrecoverable. Customer debt is also linked to the state of the economy. Ofwat included a notified item for customer debt associated with unpaid bills associated with worsening economic conditions. To achieve a re-setting of its price limits through an IDOK during a Periodic Review Period when changes in the regulatory assumptions as to the level of non-recoverable debt are material, TWUL would need to demonstrate a proven link between increasing levels of non-recoverable debt and worsening economic conditions. Increased prices may lead to increases in non-recoverable debt. TWUL may therefore suffer losses from its inability to recover its debts fully, which could adversely affect TWUL's business, results of operations, profitability or financial condition.

Increased water treatment costs

Energy prices and the cost of chemicals and other substances used by TWUL in its treatment processes have increased in recent years. TWUL has sought to mitigate the impact of known increases, to the extent that they were not taken into account in the 2009 Final Determination, through efficiency savings built into its business plan. Ofwat allowed energy and material costs as per TWUL's actual costs in 2008/09 subject to a small efficiency challenge. However, further increases in energy prices and/or the cost of other commodities could lead to greater operating costs which could adversely affect TWUL's business, results of operations, profitability or financial condition and are at TWUL's risk. The rates charged on TWUL's sewage treatment works increased in 2005 as a result of the regular five yearly rating review conducted by the Government's Rating Agency. In the 2009 Final Determination, Ofwat allowed TWUL's full forecast of the latest increase in energy rates and charges subject again to a small efficiency challenge.

Pension Schemes

TWUL participates in a number of pension schemes as described in Chapter 5 "*Description of the TWU Financing Group* - Pensions". The principal schemes, the Thames Water Pension Scheme (the "**TWPS**") and Thames Water Mirror Image Pension Scheme (the "**TWMIPS**"), are funded defined benefit ("**DB**") schemes.

A new Defined Contribution ("**DC**") scheme has recently been introduced from 1 April 2011 and all

new employees will in future join this DC scheme.

If long-term investment returns remain lower than the rate assumed by the actuaries in their valuations, improvements in life expectancy are greater than assumed, interest rates reduce, or the schemes' trustees seek a more prudent approach to funding (in each case potentially leading to deficits or increased deficits in the schemes) the profitability of the group may be further adversely affected and the group required to increase its contributions to eliminate this underfunding.

In the 2009 Final Determination, pensions were funded on a cash basis for AMP5. However, Ofwat may seek not to make such allowances in future Periodic Review Periods. If such deficits were not so recoverable in future, TWUL's business, results of operations, profitability or financial condition could be adversely affected

Service interruptions to or contamination of water supplies

TWUL undertakes maintenance of the assets required for its water supply and sewerage services business with the objective of providing a continuous service. Historically, interruptions to the supply of services have been minor. However, the failure of a key asset (including a reservoir or treatment works) could cause a more significant interruption to the supply of services (in terms of duration or number of customers affected), materially affecting the way that TWUL operates, prejudicing its reputation and resulting in additional costs including liability to customers or loss of revenue, each of which could have an adverse effect on TWUL's business, results of operations, profitability or financial condition.

Water supplies may be subject to contamination, including contamination from the presence of naturally occurring compounds and pollution from man-made substances or criminal acts. In the event that TWUL's water supply is contaminated and it is unable to substitute water supply from an uncontaminated water source, or to treat adequately the contaminated water source in a cost-effective manner, there may be an adverse effect on its business, results of operation, profitability or financial condition because of the resulting prejudice to reputation and required capital and operational expenditures. TWUL could also be fined for breaches of statutory requirements or regulations, or held liable for human exposure to hazardous substances in its water supplies or other environmental damage, which may also adversely affect TWUL's business, results of operations, profitability or financial condition. However, prosecutions and fines may be avoided if it can be shown that TWUL has taken all reasonable steps and exercised due diligence.

The costs associated with service interruptions or contaminations may be partly recoverable through the mechanisms referred to in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" or future Periodic Reviews but, in the event that such recovery is not possible, such costs could be significant and could have an adverse effect on TWUL's business, results of operations, profitability or financial condition. TWUL also maintains insurance policies in relation to legal liabilities likely to be associated with these risks. However, all the costs of any such liabilities may not be covered by insurance and insurance coverage may not continue to be available in the future. In addition, contamination of supplies could exacerbate water shortages, giving rise to the issues described below.

Water shortages

In the event of water shortages, additional costs may be incurred by TWUL in order to provide emergency reinforcement to supplies in areas of shortage which may adversely affect its business, results of operations, profitability or financial condition. In addition, restrictions on the use or supply of water (including hosepipe bans and Ordinary Drought Orders or Drought Permits (as defined in Chapter 6 - "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Management of Water Resources - Water Resources Planning*")) may adversely affect TWUL's turnover and may, in very extreme circumstances, require an Emergency Drought Order to be put in place (such circumstances have never been experienced by TWUL). The occurrence of an Emergency Drought Order would lead to significant compensation becoming due to customers because of interruptions to supply, both of which could adversely affect TWUL's business, results of operations, profitability or financial condition.

Potential water shortages may be exacerbated by reductions in the volume of water licensed to be abstracted imposed by the EA to mitigate environmental damage or to achieve sustainable levels of abstraction. Costs may be incurred by TWUL in implementing replacement sources and abstraction charges could be increased by the EA to cover compensation payments made to other abstractors whose licences are revoked or varied to alleviate environmental impact, each of which could adversely affect TWUL's business, results of operations, profitability or financial condition.

Disruption at key sites or installations

Some of TWUL's sites or installations (including certain reservoirs, pumping stations and/or water or sewage treatment works) account for a relatively large percentage of the operations of the Appointed Business. These sites and installations are therefore key to the ongoing proper operation of the Appointed Business and as a result TWUL's business, results of operations, profitability or financial condition could be adversely affected in the event of an unexpected major disruption (including because of criminal acts or a major health and safety incident) at one or more of these sites or installations.

Changes in the rate of inflation

TWUL's turnover is linked to the underlying rate of inflation (measured by the Retail Price Index) and as such is subject to fluctuations in line with changes in the rate of inflation. In addition, changes in the rate of inflation are likely to impact on the operating costs and capital expenditure of TWUL and on customers' ability to pay any increased charges. TWUL attempts to mitigate this by linking a significant amount of financing charges to the rate of inflation through RPI linked debt and swaps.

Construction Output Prices Index

Under the 2009 Final Determination the allowed annual capital expenditure will be indexed using the Construction Output Prices Index ("**COPI**"). There s a risk that the actual costs of capital investment in the AMP5 Period will be higher than the ex-post COPI-adjusted allowed capital expenditure, resulting in a revenue penalty applied in the Period Review process for the next AMP Period. This may arise where contract conditions do not allow for index tracking (e.g. fixed cost contracts or contracts which are linked to RPI).

Catastrophe Risk

Catastrophic events such as dam bursts, fires, earthquakes, floods, droughts, terrorist attacks, diseases, plant failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, severe damage to or destruction of TWUL's operational assets. Subject to a possible IDOK under the Substantial Effects Clause, any costs resulting from suspension of operations of TWUL could have a material adverse effect on the ability of TWUL to meet its financing obligations.

Although the CTA requires TWUL to maintain insurance (including business interruption insurance) to protect against certain of these risks, the proceeds from such insurance may not be adequate to cover reduced revenues, increased expenses or other losses or liabilities arising from the occurrence of any of the events described above. Moreover, there can be no assurance that such insurance coverage will be available for some or all of these risks in the future at commercially reasonable rates or at all. (See Chapter 5 "*Description of the TWU Financing Group*" under "*Insurance*").

Certain Legal Considerations

Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, both the WIA and the Licence restrict TWUL's ability to dispose of interests in Protected Land (as explained in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "Protected Land", below). These restrictions therefore also serve to limit TWUL's ability to create a charge or mortgage over Protected Land. Accordingly, a licence restricts a Regulated Company's ability to create a charge or mortgage

over Protected Land. In the case of TWUL, the Issuer estimates that the vast majority of TWUL's assets by value are tangible property which is Protected Land and cannot therefore be effectively secured. This necessarily affects the ability of TWUL to create a floating charge over the whole or substantially the whole of its business. Furthermore, in any event, there is no right of a floating charge holder under the WIA to block the appointment of a Special Administrator.

The Secretary of State and Ofwat have rights under the WIA to appoint a Special Administrator in certain circumstances in respect of TWUL and its business. The appointment of a Special Administrator effectively places a moratorium upon any holder of security from enforcing that security (see the section "*Special Administration*" below).

There are also certain legal restrictions which arise under the WIA and TWUL's Licence affecting the enforcement of the security created under the Security Agreement. For example, such enforcement is prohibited unless the person enforcing the security has first given 14 days' notice to Ofwat or the Secretary of State, giving them time to petition for the appointment of a Special Administrator (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "Security").

Accordingly, the security provided over the assets of TWUL in favour of the Security Trustee in respect of the Issuer's obligations under the Bonds affords significantly less protection to the Security Trustee (and, therefore, the Bondholders) than would be the case if TWUL were not a Regulated Company subject to the provisions of the WIA and its Licence.

The considerations described above do not apply to the fixed and floating charges created under the Security Agreement by TWH, TWUF, TWUCFH and the Issuer. The enforcement of the security granted under the Security Agreement over the shares in any company in the TWU Financing Group (as defined below in Chapter 5 "*Description of the TWU Financing Group*" under "*Ring-fencing and the TWU Financing Group*") (other than the Issuer and TWUF), including any holding company of TWUL, would not be subject to the moratorium set out in the WIA nor would it be an event which would itself result in the making of the Special Administration Order. Notwithstanding this, given Ofwat's general duties under the WIA to exercise their powers to ensure that the functions of a Regulated Company are properly carried out, the Issuer anticipates that any intended enforcement either directly or indirectly of the Security granted by TWH over, and subsequently any planned disposal to a third party purchaser of, the shares in TWUL would involve consultation with Ofwat. In addition, it is anticipated that any intended enforcement directly or indirectly of the security created by TWH under the Security Agreement, to the extent that such enforcement would amount to a relevant merger situation for the purposes of the Enterprise Act or a concentration with a Community dimension for the purposes of the European Merger Regulation, would require consultation with Ofwat and would be reviewable by the OFT or the European Commission.

Notice of the creation of the Security by TWUL will not be given initially to TWUL's customers or to TWUL's contractual counterparties in respect of its contracts (other than certain material contracts). Also, any security over any amounts due from customers that constitute statutory receivables may be limited by law. In addition, if TWUL were to acquire any land that was not Protected Land, the charge over that land granted by the Security Agreement would take effect in equity only. Accordingly, until any such assignment is perfected, registration effected with HM Land Registry in respect of registered land or certain other action is taken in respect of unregistered land, any such assignment or charge may be or become subject to prior equities arising (such as rights of set-off).

Special Administration

The WIA contains provisions enabling the Secretary of State or Ofwat (with the permission of the Secretary of State) to secure the general continuity of water supply and, where applicable, sewerage services by petitioning the High Court for the appointment of a Special Administrator in certain circumstances (for example, where TWUL is in breach of its principal duties under its Licence or of the provisions of a final or confirmed provisional enforcement order (and in either case the breach is serious enough to make it inappropriate for TWUL to continue to hold its Licence) or is unable, or is unlikely to be able, to pay its debts). In addition, a petition by a creditor of TWUL to the High Court for the winding-up of TWUL might result in the appointment of a Special Administrator where the Court is satisfied that it would be appropriate to make such a winding-up order if the company were not

a company holding an appointment under the WIA. The duties and functions of a Special Administrator differ in certain important respects to those of an administrator of a company which is not a Regulated Company.

During the period of the Special Administration Order, TWUL has to be managed by the Special Administrator for the purposes of the order and in a manner which protects the interests of shareholders and creditors. As noted above, while the order is in force, no steps may be taken to enforce any security over the property of TWUL except with the consent of the Special Administrator or the leave of the Court. A Special Administrator would be able to dispose of assets free of any floating charge existing in relation to them. On such a disposal, however, the proceeds would be treated as if subject to a floating charge which has the same priority as that afforded to the original security. A Special Administrator may not dispose of property which is the subject of a fixed charge without the agreement of the relevant creditor except under an order of the Court. On such a disposal, the Special Administrator must account for the proceeds to the chargee, although the disposal proceeds to which the chargee is entitled are determined by reference to "the best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order" as opposed to an amount not less than "open market value", which would apply in a conventional administration for a company which is not a Regulated Company under English insolvency legislation.

Because of the statutory purposes of a Special Administration Order, it is not open to a Special Administrator to accept an offer to purchase the assets on a break-up basis in circumstances where the purchaser would be unable properly to carry out the relevant functions of a Regulated Company. The transfer is effected by a transfer scheme which the Special Administrator puts in place, subject to the approval of the Secretary of State or Ofwat on behalf of the existing Regulated Company. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's licence (with modifications as set out in the transfer scheme) to the new Regulated Company(ies) (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Special Administration Orders*" below). The FWMA has made some modifications to the Special Administration regime (See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Special Administration Orders*" below).

There can be no assurance that any transfer scheme in the context of a Special Administration regime could be achieved on terms that would enable creditors to recover amounts due to them in full.

Payment Priorities

The validity and enforceability of certain provisions in contractual priorities of payments which purport to alter the priority in which a particular secured creditor is paid as a result of the occurrence of one or more specified trigger events, including the insolvency of such creditor ("**flip clauses**"), have been challenged recently in the English and U.S. courts on the basis that the operation of a flip clause as a result of such creditor's insolvency breaches principles of English and U.S. insolvency law, which have been referred to as "anti-deprivation" principles.

In the English courts, the Court of Appeal in Perpetual Trustee Co Ltd v BNY Corporate Trustee Services Ltd [2009] EWCA Civ 1160 (the "**Perpetual Case**") dismissed this argument and upheld the validity of a flip clause contained in an English-law governed security document. However, the Court of Appeal stopped short of deciding that all secured payment priorities were enforceable stating that "it is probably inevitable that the courts must develop the law in this area, at least for the moment, on a relatively cautious, case-by-case basis". We also note that the insolvent creditor in the Perpetual Case has been granted leave to appeal the decision of the Court of Appeal to the Supreme Court and the question of the validity of flip clauses will therefore be considered again as a matter of English law.

In the U.S. courts, the U.S. Bankruptcy Court for the Southern District of New York in Lehman Brothers Special Financing Inc. v. BNY Corporate Trustee Services Limited. (In re Lehman Brothers Holdings Inc.), Adv. Pro. No. 09-1242-JMP (Bankr. S.D.N.Y. May 20, 2009) examined the same flip clause and held that such a provision, which seeks to modify one creditor's position in a priority of payments when that creditor files for bankruptcy, is unenforceable under the US Bankruptcy Code.

The flip clause examined in the Perpetual Case is similar in substance to the provisions in the Payment Priorities (the "**Relevant Provisions**"). However, the Payment Priorities, whilst similar to the Relevant Provisions, differ on the basis that, among other things, in addition to ranking behind the Bondholders, the Hedge Counterparties also rank behind other Secured Creditors in the case of its insolvency. This difference in respect of the facts and the detail of the Court of Appeal judgment, mean that there is some uncertainty surrounding the binding nature of the Payments Priorities. However, whilst there may well be further developments in this area of the law that could impact this analysis, the Issuer has been advised that the Payment Priorities would not be set aside under the anti-deprivation principles discussed in the Perpetual Case.

Additionally, as a result of the conflicting statements of the English and New York courts there is uncertainty as to whether the English courts will give any effect to any New York court judgment. Similarly, if the Payment Priorities are the subject of litigation in any jurisdiction outside England and Wales and such litigation results in a conflicting judgment in respect of the binding nature of the Payment Priorities it is possible that termination payments due to that Hedge Counterparty would not be subordinated as envisaged by the Payment Priorities and as a result, the Obligors' ability to repay the Bondholders in full may be adversely affected. There is a particular risk of conflicting judgments where a Hedge Counterparty is the subject of bankruptcy or insolvency proceedings outside of England and Wales. However, in the context of the Perpetual Case, the Issuer has been advised that it is unlikely that the English courts would make any order pursuant to the Cross Border Insolvency Regulations 2006 ("**CBIR**") or otherwise which has the effect of restraining parties from making or receiving payments in accordance with the order of priority agreed between them where English assets are to be distributed pursuant to an English law security trust by an English incorporated security trustee - as is the case in respect of the Programme - though the possibility cannot be discounted entirely.

Insolvency Considerations: The Enterprise Act

The Enterprise Act sets out certain reforms to corporate insolvency law contained in the Insolvency Act 1986, including the introduction of a prohibition on the appointment of an administrative receiver in relation to companies incorporated in England and Wales such as TWUF, TWUL and TWH. Unless a floating charge falls within one of the exceptions contained in the Enterprise Act, the holder of a qualifying floating charge will be prohibited from appointing an administrative receiver to a company and, consequently, the ability to prevent the appointment of an administrator to such company will be lost. Such ability will not be applicable in the case of TWUL which is subject to the Special Administration regime (see the section "*Risk Factors - Certain Legal Considerations - Special Administration*" above).

The Enterprise Act also provides that, on an insolvency of a company, a certain proportion of realisations in respect of certain classes of assets subject to a floating charge shall be made available for the satisfaction of unsecured creditors.

However, the ability to appoint an administrative receiver to prevent an administration and the making available of the prescribed portion of realisations on an insolvency are unlikely to be of significance in the case of companies such as TWUF, TWUL and TWH which are subject to substantial restrictions on their activities.

Environmental Considerations

TWUL's water supply and sewerage operations are subject to a significant number of European and UK laws and regulations relating to the protection of the environment and human health. These are governed by Defra and regulated primarily by the EA, Natural England and the DWI as described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*". These laws establish standards for drinking water, abstraction, discharge of sewerage and other polluting discharges into the environment and require TWUL to adopt environmental management procedures governing these operations. There are also specific requirements for development, and requirements for the protection and management of nationally and internationally important wildlife and natural habitats (either on land owned by TWUL or on land affected by TWUL's wider operations).

TWUL and other Regulated Companies can incur significant costs in order to comply with the requirements imposed under existing or future environmental laws and regulations. Where costs arising

from such changes in legal requirements (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*") were not expected (and so do not fall to be considered as part of a Periodic Review), in certain limited circumstances, TWUL may apply for an interim determination. With the frequency of legislative changes, it is not always certain how future environmental laws will impact TWUL and the financial condition of TWUL and/or the interests of the Bondholders.

When supplying water for domestic or food production purposes TWUL is under a duty to supply water that is wholesome at the time of supply. "Wholesomeness" is defined by reference to standards and other requirements set out in the Water Supply (Water Quality) Regulations 2000, as amended (the "**Water Quality Regulations**"). Under the WIA, the Secretary of State is required to take enforcement action against TWUL for any breach of the Water Quality Regulations. In practice this enforcement activity is carried out by the DWI which is appointed by the Secretary of State. Enforcement action need not be taken if the Secretary of State is satisfied that the breach is trivial (or that TWUL's contribution to the breach is trivial) or unlikely to recur, or TWUL has submitted a legally binding programme of work in the form of a Section 19 Undertaking (the "**Section 19 Undertaking**") to achieve compliance within an acceptable timescale. In addition, under the Water Quality Regulations, the Secretary of State may authorise a departure from the relevant quality parameter. Where drinking water quality standards may be more rigorously enforced over time, new requirements could increase TWUL's operating and/or capital costs. These costs may be wholly or partly recoverable through the mechanisms referred to in this Chapter and Chapter 6 but in the event that such recovery is not possible, such costs could adversely affect TWUL's business and financial position.

The environmental legislation governing TWUL's business means that TWUL is at risk of enforcement action, prosecution or substantial fines, in the event of incidents such as the escape of sewage or a breach of water quality standards. This could affect TWUL's profitability or financial position. Given the nature of TWUL's operations, there is a risk that pollution, environmental damage or drinking water quality incidents may occur, although TWUL endeavours to avoid such incidents. The possible consequences of any such incident include criminal prosecution leading to the imposition of fines on TWUL, civil liability in damages to third parties and/or requirements to clean up or otherwise deal with the effects of contamination and/or operational requirements to upgrade plant and equipment. The imposition of fines, civil liability, clean-up or upgrade costs may materially and adversely affect TWUL's reputation and/or financial position. Any such incident may also give rise to breaches of any operational Environmental Permits held by TWUL, which could result in fines and/or termination.

Defra Review of the Controlled Waste Regulations 1992

A consultation by Defra in December 2010 leaves the water industry and consequently, TWUL at risk of exposure to additional environmental permitting requirements and potential landfill tax liabilities. Defra proposed a revision of the Controlled Waste Regulations omitting the exemption that excludes sewage sludge from waste controls when it is within the curtilage of a sewage treatment works or when it is being spread to agricultural land. Based on the focus of the consultation by Defra, TWUL believes that this is an unintended consequence of changes simply designed to resolve the uncertainty surrounding the ability of the Local Authorities' to charge for collection and disposal of non-domestic waste. TWUL has been in discussions with the EA and Defra (via Water UK). However, at the date hereof, Defra has not indicated how it will resolve this. If the revisions go ahead as planned TWUL may need to obtain additional environmental permits for its sludge storage and disposal operations at additional operational cost and with increased compliance risk. More significantly, if environmental permits are required for its regular sludge spreading operations and this could potentially threaten the viability and stability of this recycling outlet for sludge. Any requirement to find an alternative to the sludge to land route would lead to additional costs for TWUL which could adversely affect TWUL's business, results of operations, profitability or financial position.

High Leverage

TWUL's indebtedness is substantial in relation to its shareholders' equity. TWUL raises debt both directly and through the Issuer under the Programme with funds raised being on-lent to TWUL. Prior to the launch of the Programme debt was raised either directly or through TWUF, with funds raised being on-lent to TWUL. As at 31 March 2011, the outstanding principal amount of Class A Bonds and Class B Bonds issued by the Issuer under the Programme was £3,993.3 million (including indexation and fees), the outstanding principal amount of TWUF Class A Bonds was £2,679.6 million (including

indexation and fees) and the outstanding principal amount of debt raised by TWUL was £875.2 million. TWUL is, as at 31 March 2011, taking into account cash reserves, derivatives and adjustments agreed with Ofwat, leveraged to approximately 77.4 per cent. as a percentage of Senior Debt to RCV. TWUL is entitled to increase its leverage. However, a leverage of greater than 85 per cent. of Senior Debt to RCV will result in a restriction on certain payments, such as dividends. The ability of TWUL to improve its operating performance and financial results will depend upon economic, financial, competitive, regulatory and other factors beyond its control, including fluctuations in interest rates and general economic conditions in the United Kingdom[1].

Accordingly, there can be no assurance of TWUL's ability to meet its financing requirements and no assurance that TWUL's high degree of leverage will not have a material adverse impact on its ability to pay amounts under the Issuer/TWUL Loan Agreements, which would enable the Issuer to pay amounts due and owing in respect of the Bonds. Incurrence of additional indebtedness by TWUL or the Issuer, which is permitted under the Finance Documents, may materially affect the ability of TWUL, the Issuer or the other Obligors to pay amounts due and owing in respect of the Bonds.

Future Financing

The TWU Financing Group will need to raise further debt from time to time in order, among other things, to:

(a) finance future capital enhancements to TWUL's asset base;

(b) on each Interest Payment Date on which principal is required to be repaid and on the maturity date of the relevant Sub-Classes of Bonds, refinance the Bonds; and

(c) refinance the TWUF Bonds and any other debt (including any final RPI payments under an RPI Linked Hedging Agreement and for liquidity or working capital purposes) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Bonds.

While the CTA and the STID contemplate the terms and conditions on, and circumstances under, which such additional indebtedness can be raised, there can be no assurance that the TWU Financing Group will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that the purposes for which such financing is being raised are fulfilled, and in particular such that all amounts then due and payable on the Bonds or any other maturing indebtedness will be capable of being so paid when due.

Issuer and Bond Considerations

Special purpose vehicle Issuer

The Issuer was established as a special purpose financing entity for the purpose of issuing asset-backed securities and has no business operations other than raising external funding for TWUL through the issuance of the Bonds and borrowing under the Liquidity Facilities and Authorised Credit Facilities and entering into Hedging Agreements. With effect from the Initial Issue Date, other than the proceeds of the issuance of additional Bonds, the Issuer's principal source of funds is pursuant to the Issuer/TWUL Loan Agreements and funds available to it pursuant to the Liquidity Facilities and other Authorised Credit Facilities. The Issuer has issued a guarantee in respect of the obligations of TWUL, TWUCFH and TWUF. TWUF is also a special purpose financing entity with no business operations other than having raised external funds for TWUL through the issuance of the TWUF Bonds, and whose principal source of funds available to service debt will be pursuant to the TWUF/TWUL Loan Agreements and the DSR Liquidity Facilities.

Therefore, the Issuer is subject to all the risks relating to revenues and expenses to which TWUL is

[1] All figures in this paragraph remain subject to audit.

subject. Such risks could limit funds available to TWUL to enable TWUL to satisfy in full and on a timely basis its obligations under the Issuer/TWUL Loan Agreements and its guarantee under the Security Agreement (see the section "*TWUL Revenue and Cost Considerations*" above).

Source of payments to Bondholders

Although the Class A Wrapped Bonds and Class B Wrapped Bonds will have the benefit of the relevant Financial Guarantee, none of the Bonds of any Class will be obligations or responsibilities of, nor will they be guaranteed by, any of the Other Parties (other than the Guarantors and, in the case of the Wrapped Bonds, the Relevant Financial Guarantor). The guarantee by TWH may be of limited value because it does not own, nor will it own, any significant assets other than its direct shareholding in TWUL. The guarantee by TWUCFH may be of limited value because it does not own, nor will it own, any significant assets other than its direct shareholding in the Issuer. The guarantee by TWUF may be of limited value because it does not own, nor will it own, any significant assets other than the loans it has made to TWUL and furthermore, TWUF has Financial Indebtedness outstanding under the Secured TWUF Bonds which constitutes Class A Debt of the TWU Financing Group.

In addition, a Financial Guarantor will guarantee to the holders of the Class A Wrapped Bonds and holders of the Class B Wrapped Bonds only the payment of scheduled principal and interest; it will not guarantee FG Excepted Amounts.

Subordination of the Class B Bonds

Payments under the Class A Wrapped Bonds and the Class A Unwrapped Bonds (each of whatever Sub-Class) rank in priority to payments of principal and interest due on all Sub-Classes of the Class B Bonds. The Class A Wrapped Bonds and the Class A Unwrapped Bonds (each of whatever Sub-Class) rank *pari passu*.

If, on any Interest Payment Date, prior to the taking of Enforcement Action after the termination of a Standstill Period, there are insufficient funds available to the Issuer to pay accrued interest or principal on the Class B Bonds (after taking into account any amounts available to be drawn by the Issuer under any DSR Liquidity Facility or from the Debt Service Reserve Accounts), the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the Payment Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and, in the case of a Permitted Share Pledge Acceleration, only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred amounts (including accrued interest thereon). Interest will, however, accrue on such deferred amounts.

Notwithstanding the subordination of, and credit enhancement provided by, the Class B Bonds to the Class A Wrapped Bonds and Class A Unwrapped Bonds, the Issuer may, subject to certain conditions, optionally redeem some or all of the Bonds subordinated and providing credit enhancement to other Classes of Bonds.

It should be noted that all of the Payment Dates for the various different types of Class A Debt and Class B Debt will not necessarily coincide and that, until a Standstill Period has commenced, there is no obligation to ensure that a payment made to a holder of a Class B Bond (or any other Class B Debt Provider pursuant to any other Class B Debt) will not lead to a deficiency of funds to make payments in respect of Class A Debt that falls due on a later date.

The DSR Liquidity Facilities

The DSR Liquidity Facilities and any amounts credited to the Debt Service Reserve Accounts are intended to cover certain shortfalls in the ability of TWUL to service payments under its Authorised Credit Facilities (including the Issuer/TWUL Loan Agreements) to enable the Issuer to make payments in relation to the Class A Debt and the Class B Debt on any Interest Payment Date (excluding the repayment of principal under the Bonds). However, on any such Interest Payment Date, there are no

assurances that any such shortfalls will be met in whole or in part by amounts standing to the credit of the Debt Service Reserve Accounts or by the DSR Liquidity Facilities.

Rights available to Bondholders

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee (except where expressly provided otherwise). Where, in the sole opinion of the Bond Trustee, there is a conflict of interest between the interests of the holders of the Class A Bonds and the interests of the holders of the Class B Bonds, the Bond Trustee shall give priority to the interests of the holders of the Class A Bonds whose interests shall prevail. Where, in the sole opinion of the Bond Trustee there is a conflict of interest between the holders of two or more Sub-Classes of Bonds of the same Class, the Bond Trustee shall consider the interests of the holders of the Sub-Class of Bonds with the shortest dated maturity and, in either case, will not have regard to the consequences of such exercise for any other Bondholders or any other person. Subject to certain exceptions, to the extent that the exercise of any rights, powers, trusts and discretions of the Bond Trustee affects or relates to any Class A Wrapped Bonds or Class B Wrapped Bonds, the Bond Trustee shall only act on the instructions of the Relevant Financial Guarantor(s) in accordance with the Bond Trust Deed. The STID provides that the Security Trustee (except in relation to certain Reserved Matters and Entrenched Rights as set out in the STID) will act on instructions of the relevant DIG Representative(s). When so doing, the Security Trustee is not required to have regard to the interests of any Finance Party (including the Bond Trustee as trustee for the Bondholders) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

Intercreditor Rights of Bondholders

The Bonds are subject to the provisions of the STID. The STID contains provisions enabling the Security Trustee to implement various modifications, consents and waivers in relation to the Finance Documents and the Bonds, subject to Entrenched Rights and Reserved Matters. See Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed - Entrenched Rights and Reserved Matters*" below. The Security Trustee is authorised to act on the instructions of the Class A DIG or, following repayment of the Class A Debt, the Class B DIG. Prior to a Default Situation, a Bondholder will not be entitled to vote other than in respect of Entrenched Rights and Reserved Matters.

Prior to a Default Situation, the Bond Trustee may vote on behalf of the Unwrapped Bondholders (excluding the Unwrapped Bondholders in relation to any Class A FG Covered Bonds) and (if an FG Event of Default has occurred and is continuing in relation to the relevant Financial Guarantor) the Wrapped Bondholders as part of the Class A DIG or as the case may be Class B DIG. However, the Bond Trustee will not be obliged to vote and will not be entitled to convene a meeting of Bondholders to seek directions in respect of such vote. Accordingly, subject to Entrenched Rights and Reserved Matters of the Bondholders, prior to a Default Situation, the Outstanding Principal Amount of the Wrapped Bonds (following the occurrence of an FG Event of Default in relation to the relevant Financial Guarantor) and the Unwrapped Bonds (other than any Class A FG Covered Bonds) will not be voted as part of the Class A DIG or Class B DIG, as the case may be, in circumstances where the Bond Trustee is unable or unwilling to exercise its discretion. However, prior to a Default Situation, each Secondary Market Guarantor in respect of any Class A FG Covered Bonds will form part of the Class A DIG and will be entitled to vote on behalf of the relevant Class A Unwrapped Bondholders in respect of such Class A FG Covered Bonds.

During a Default Situation the Bond Trustee shall be entitled to vote and will be entitled to seek directions from the relevant Bondholders in respect of such vote (and each Secondary Market Guarantor will no longer form part of the Class A DIG in relation to any Class A FG Covered Bonds). However, the Bond Trustee may be prevented from voting if a valid Emergency Instruction Notice is delivered to the Security Trustee. See Chapter 7 "*Overview of the Financing Agreements*" under "*Emergency Instruction Procedure*". In respect of a vote relating to Entrenched Rights and Reserved Matters, the Bond Trustee will be required to seek directions from the Bondholders of each affected Series of Bonds in respect of such vote (and each Secondary Market Guarantor will not form part of the Class A DIG in relation to any Class A FG Covered Bonds for such purposes).

Accordingly, subject to the Entrenched Rights and Reserved Matters of the Bondholders, decisions relating to and binding upon the Bonds may be made by persons with no interest in the Bonds and the Bondholders may be adversely affected as a result. See Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".

Under the terms of the STID and the CTA any further issues of debt securities by the Issuer must be made subject to the intercreditor arrangements contained in the CTA and the STID (to which the Bonds are also subject). No alteration of the rights of priority of the Class A Bondholders or, as the case may be, the Class B Bondholders may be made without the consent of the relevant Bondholders.

The Entrenched Rights and Reserved Matters may materially and adversely affect the exercise and proceeds of any enforcement of the Security. Subject to such Entrenched Rights and Reserved Matters, the Majority Creditors may make a modification to, or grant any consent or waiver in respect of, the Finance Documents without the need to seek a confirmation from the Rating Agencies as to the then current ratings of the Bonds.

Regulatory Considerations

Bondholders should consult their own advisers as to the consequences to and effect on them of the application of the EU Capital Requirements Directive (Directive numbers 2006/48/EC and 2006/49/EEU, as amended ("**CRD**")), as implemented by their own regulator, to their holding of any Class of Bonds. The recent amendments to the CRD could lead to certain investors being subject to additional regulatory obligations. These regulatory obligations would vary depending on the type of investor and the jurisdiction in which they are regulated. Investors should be aware that such regulatory obligations may adversely affect their own holding of the Bonds (if they fall within one of the relevant categories of regulated investors) and may adversely affect the price for which they can sell the Bonds or their ability to sell the Bonds at all. The investor should make its own determination as to such treatment, conduct appropriate due diligence and/or seek professional advice and, where relevant, consult its regulator. The Issuer is not responsible for informing Bondholders of the effects of the changes to risk-weighting which will result for investors from the adoption of CRD by their own regulator.

Limited Liquidity of the Bonds; Absence of Secondary Market for the Bonds

There can be no assurance that a secondary market will develop, or, if a secondary market does develop for any of the Bonds, that it will provide the holder of the Bonds with liquidity or that any such liquidity will continue for the life of the Bonds. Consequently, any purchaser of the Bonds must be prepared to hold such Bonds for an indefinite period of time or until final redemption or maturity of the Bonds.

The liquidity and market value at any time of the Bonds is affected by, among other things, the market view of the credit risk of such Bonds and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events, the performance and financial condition of TWUL, developments and trends in the water industry generally and events in the appointed area of TWUL.

Trading in the Clearing systems - integral multiples of less than €50,000 / €100,000

In relation to any issue of Bonds which have a denomination consisting of the minimum Specified Denomination of €50,000 (or, where the Relevant Currency is not euro, its equivalent in the Relevant Currency) plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of €50,000 (or its equivalent) that are not integral multiples of €50,000 (or its equivalent). In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than such minimum Specified Denomination will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more of such Specified Denominations.

From the date of entry into force of the Amending Directive, Bonds which are admitted to trading on the Market and have a maturity date which falls after the implementation date of the Amending

Directive in any relevant European Economic Area Member State must have a minimum specified denomination €100,000 (or its equivalent in any other currency as at the date of issue of such Bonds).

In relation to any issue of Bonds which have a denomination consisting of the minimum Specified Denomination of €100,000 (or, where the Relevant Currency is not euro, its equivalent in the Relevant Currency) plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than such minimum Specified Denomination will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more of such Specified Denominations.

Rating of the Bonds

The ratings assigned by the Rating Agencies to the Wrapped Bonds are based solely on the ability of any Financial Guarantor to pay claims and reflect only the views of the Rating Agencies. The ratings assigned by the Rating Agencies to the Unwrapped Bonds reflect only the views of the Rating Agencies and in assigning the ratings the Rating Agencies take into consideration the credit quality of TWUL and structural features and other aspects of the transaction.

A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of TWUL, circumstances relating to the water industry generally or, in the case of the Wrapped Bonds, of the Relevant Financial Guarantor from time to time.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Each of Standard & Poor's and Moody's is a credit rating agency established and operating in the European Community prior to 7 June 2010 and has submitted an application for registration in accordance with the CRA Regulation and as at the date of this Prospectus, such application for registration has not been refused.

There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies (or any of them) as a result of changes in, or unavailability of, information or if, in the Rating Agencies' judgment, circumstances so warrant. If any rating assigned to the Bonds is lowered or withdrawn, the market value of the Bonds may be reduced. Future events, including events affecting TWUL and/or circumstances relating to the water industry generally, could have an adverse impact on the ratings of the Bonds.

Withholding Tax under the Bonds

In the event withholding taxes are imposed by or in any jurisdiction in respect of payments due under the Bonds, the Issuer is not obliged to gross-up or otherwise compensate Bondholders for the fact that the Bondholders will receive, as a result of the imposition of such withholding taxes, cash amounts which are less than those which would otherwise have been the case. The Issuer will, in such event, have the option (but not the obligation) of:

(a) arranging for the substitution of another company in an alternative jurisdiction (subject to certain conditions); and, failing this,

(b) redeeming all Outstanding Bonds in full.

(See Chapter 8 "*The Bonds*" under "*Terms and Conditions of the Bonds*" and Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*).)

Likewise, in the event withholding taxes are imposed in respect of payments due under the Wrapped Bonds and the Relevant Financial Guarantor is called upon under its Financial Guarantee or Financial

Guarantees to make payments in respect of such payments, such Financial Guarantor is not obliged to gross-up or otherwise compensate the holders of such Wrapped Bonds for the fact that such Wrapped Bondholders will receive, as a result of the imposition of any withholding taxes, cash amounts which are less than those which would otherwise have been the case.

Indexed Bonds

Under the Programme, the Issuer may issue Bonds with principal or interest determined by reference to an index or formula. Potential investors should be aware that they may lose all or a substantial portion of their principal of any index-linked Bonds issued under the Programme. The historical performance of an index should not be viewed as an indication of the future performance of such index. A potential investor should consult its own financial and legal advisor about the risk entailed by an investment in any such Bonds and the suitability of such Bonds in the light of its particular circumstances.

Hedging Risks

The Issuer may be left exposed to interest rate risk or currency risk in the event that there is an early termination of a Hedging Agreement. A Hedging Agreement may be terminated in the circumstances described in Chapter 7. If a Hedging Agreement is terminated and the Issuer is unable to find a replacement Hedge Counterparty, the funds available to the Issuer may be insufficient to meet fully its obligations under the Bonds.

EU Savings Directive

The EU has adopted the EU Savings Directive regarding the taxation of savings income. The EU Savings Directive requires each Member State to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium replaced the withholding tax system with a regime of exchange of information as from 1 January 2010. A number of third countries and territories including Switzerland have adopted similar measures to the EU Savings Directive.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

Investors should note that the European Commission has announced proposals to amend the EU Savings Directive. If implemented, the proposed amendments would, *inter alia*, extend the scope of the EU Savings Directive to: (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU-resident individual, and (ii) a wider range of income similar to interest.

Change of Law

The structure of the transaction and, among other things, the issue of the Bonds and ratings assigned to the Bonds are based on law (including tax law) and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date of this Prospectus which change might impact on the Bonds and the expected payments of interest and repayment of principal. In particular, it is possible that changes

in tax law may be introduced at any time which may have an adverse impact on the tax treatment of TWUL, the Issuer, other Obligors or the Bonds themselves.

European Monetary Union

Prior to the maturity of the Bonds, the United Kingdom may become a participating Member State in the Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. Adoption of the euro by the United Kingdom may have the following consequences:

(a) all amounts payable in respect of the sterling-denominated Bonds may become payable in euro;

(b) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Bonds or changes in the way those rates are calculated, quoted and published or displayed; and

(c) the Issuer may choose to redenominate the Bonds into euro and take additional measures in respect of the Bonds (see Chapter 8 "*The Bonds*" under "*Terms and Conditions of the Bonds*").

The introduction of the euro could also be accompanied by a volatile interest rate. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom would have on investors in the Bonds.

The potential costs to TWUL of implementing procedures to deal with any possible future adoption of the euro by the United Kingdom are unclear but could be significant.

Changes in Financial Reporting Standards

Certain provisions of the Transaction Documents contain certain conditions and/or triggers which are based upon an assessment of the financial condition of the TWU Financing Group calculated by reference to the financial statements produced in respect of the companies in the TWU Financing Group. These financial and other covenants have been set at levels which are based on the current accounting principles, standards, conventions and practices adopted by the relevant companies.

It is possible that any future changes in these accounting principles, standards, conventions and practices which are adopted by the companies in the TWU Financing Group may result in significant changes in the reporting of its financial performance (e.g. "*FRS26: Financial Instruments: Measurement*" and the introduction of International Financial Reporting). This, in turn, may necessitate that the terms of the conditions and triggers referred to above are renegotiated.

CHAPTER 5
DESCRIPTION OF THE TWU FINANCING GROUP

On 1 December 2006, the Kemble Consortium (represented through Kemble Water Holdings Limited and its subsidiaries) acquired the entire share capital of Thames Water Holdings plc (now Thames Water Holdings Limited) and its subsidiaries. The principal business of the Thames Water Group is Thames Water Utilities Limited ("**TWUL**"), its regulated water and sewerage company. The Thames Water Group also has a small number of non-regulated businesses, remaining outside the ring-fenced TWU Financing Group (a description of which is contained in the section "*Ring-fencing and the TWU Financing Group*" below).

In 2007, the TWU Financing Group was established as a ring-fenced financing group separating (so far as practicable) TWUL financially and operationally from the rest of the Thames Water Group. TWUL's management believes that the ring-fencing structure provides significant benefits to TWUL, giving better access to the long-term debt markets and an opportunity to reduce significantly the cost of capital employed in the Appointed Business, thereby enhancing shareholder returns.

Chapter 3 "*Overview of the Financing Structure*" contains a structure chart showing the TWU Financing Group and an overview of the shareholding structure immediately outside it.

TWUL

Operational and Financial Overview

TWUL is the largest provider of water and sewerage services in the UK, based on the number of customers served, which is set out in "*Water Supply Services - Customers" and "Sewerage Services - Customers*", in each case below. Based on the regulatory accounts filed with Ofwat, forming part of the 2011 June Return, as at 31 March 2011 the value of TWUL's Appointed Business earning an RCV was £8,849 million, making it one of the largest of the 10 regulated water and sewerage companies in England and Wales by RCV[2].

As set out in the statutory accounts prepared by TWUL, for the 12 months ended 31 March 2011 (the "**2011 Accounts**"), TWUL generated turnover of £1,623.1 million and profit on ordinary activities before taxation of £208.5 million. Based on the regulatory accounts filed with Ofwat forming part of the 2011 June Return, which takes account of both the Appointed Business and TWUL's non-regulated activities, total turnover for the 12 months ended 31 March 2011 for the Appointed Business was £1,600.0 million, with turnover from water services and sewerage services being of a near even split, accounting for £837.1 million and £762.9 million, respectively. Currently, no single customer accounts for revenues of more than £10 million per annum[3].

For the 12 months ended 31 March 2011, TWUL made regulated capital expenditure (including infrastructure renewals expenditure) of £1,035 million. This investment has been particularly targeted at leakage reduction, security of drinking water supplies to its customers, water and sewerage quality programmes and the alleviation of sewer flooding, as further explained below. To meet regulatory requirements and achieve its service objectives, TWUL had a substantial capital investment programme during AMP4 and as outlined in the 2009 Final Determination this investment will continue during the AMP5 Period. As stated in the regulatory accounts filed with Ofwat forming part of the 2011 June Return, the average number of persons employed by TWUL (including executive directors) for the twelve months ended 31 March 2011 was 4,886[4].

Under section 6 of the WIA, TWUL has been appointed as the water, and sewerage, undertaker for the geographic area identified in the map below as the Water Region and the Sewerage Region, subject in each case to the inset appointments granted by Ofwat. Together, the Water Region and the Sewerage

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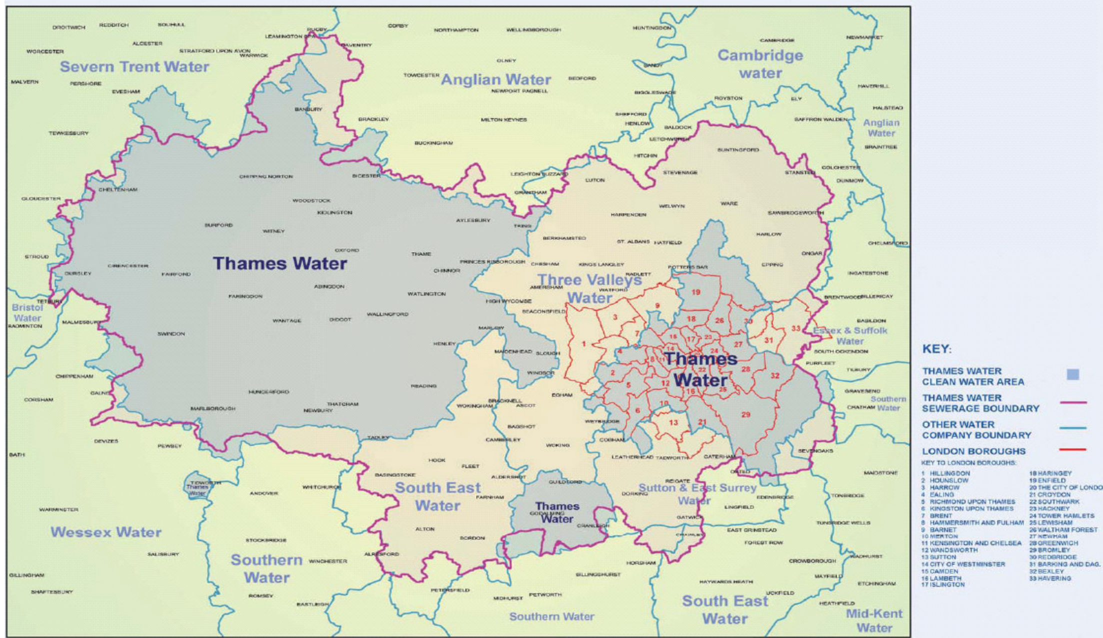
[2] All figures in this paragraph remain subject to audit.

[3] All figures in this paragraph remain subject to audit.

[4] All figures in this paragraph remain subject to audit.

Region constitute the "**Region**". The Water Region and Sewerage Region broadly coincide, except where water is supplied by another water undertaker or sewerage services are carried out by neighbouring sewerage undertakers. The Region occupies approximately 13,331 square kilometres and encompasses more than 9 per cent. of the area of England and Wales, and includes London, extends as far as Cirencester in the west, Dartford in the east, Banbury in the north and Haslemere in the south. The Region has an estimated population of approximately 13.6 million people, which represents nearly a quarter of the total population of England and Wales. The Water Region, which occupies a smaller area than the Sewerage Region, has a population of approximately 8.6 million. Where TWUL does not serve a site, or where a site is occupied by a customer using at least 50 Ml of water per year, the site is eligible for an inset appointment under section 7 of the WIA. A description of inset appointments is provided in Chapter 6 "*Competition in the water industry*".



Please note that this map does not indicate those areas which are subject to inset appointments. In particular, this map shows the Tidworth Area as being part of the Thames region, Tidworth was transferred to Veolia Water Projects in June 2009 (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Competition in the water industry*").

History

TWUL is a limited company under the Companies Act with registered number 2366661. TWUL was appointed by an Instrument of Appointment dated August 1989 (with effect from 1 September 1989) by the then Secretary of State for the Environment as a Regulated Company under the provisions of sections 11 and 14 of the Water Act 1989 (now replaced by sections 6 and 11 of the WIA) for a wide area of London and the Thames Valley area.

Regulation and Licence

TWUL operates within a highly regulated industry in England and Wales and its operations are strongly influenced by economic, drinking water quality and environmental regulation. TWUL is licensed by the economic regulator of the water and sewerage industry in England and Wales to operate as a "**Regulated Company**" in England and Wales. From 1 April 2006, Ofwat succeeded the DGWS as the economic regulator and assumed the DGWS's price-setting and other functions.

TWUL's business and results are affected by the regulated tariff rates which TWUL may charge its customers as approved by Ofwat as well as by drinking water quality and environmental regulations and the terms of its Licence. Every five years, as part of its Periodic Review, Ofwat set a price cap intended to enable water and sewerage companies in England and Wales to finance their operations and

earn a reasonable return on capital. As part of this process, TWUL submits an asset management plan ("**AMP**") to Ofwat for approval prior to the start of each Periodic Review Period, after which a final determination (a "**Final Determination**") is made by Ofwat.

The previous AMP ("**AMP4**") related to the period from 1 April 2005 to 31 March 2010 (the "**AMP4 Period**"), and the corresponding Final Determination was published by Ofwat on 2 December 2004 (the "**2004 Final Determination**"). The current AMP ("**AMP5**") relates to the period from 1 April 2010 to 31 March 2015 (the "**AMP5 Period**"). On 7 April 2009 TWUL submitted its "Final Business Plan Submission for the 2009 Periodic Review" (the "**Final Business Plan**") to Ofwat in respect of the determination of price limits for AMP5.

In the Final Business Plan, TWUL proposed an average K of 3.9 per cent. to fund a capital expenditure programme of £5.5 billion and an assumed cost of capital (on a fully post tax basis) of 5.25 per cent.

On 26 November 2009, Ofwat released their Final Determination of price limits for AMP5 entitled the "Final Determination: Setting Price Limits for 2010-15: Supplementary Report for Thames Water" (the "**2009 Final Determination**"). The 2009 Final Determination was accepted by TWUL in January 2010. As part of the 2009 Final Determination, Ofwat proposed an average annual K for TWUL of 1.4% (compared to an industry average of 0.5%), a capital expenditure programme for TWUL of £4.913 billion (post efficiency and post CIS - see Section 5.3.1 (*Interim Determinations*) of the 2009 Final Determination) and an assumed cost of capital (on a fully post-tax basis) of 4.5 per cent.

Where unexpected costs or savings occur during the period relating to a Final Determination, mechanisms exist to facilitate interim adjustments. However, such adjustments are subject to stringent conditions (as set out more fully in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*"). Therefore, in practice unexpected costs or savings are generally only reflected in the prices set for the next AMP Period.

A detailed description of the regulatory and environmental issues affecting TWUL is contained in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

Strategy

Since acquisition by the Kemble Consortium, the strategic focus of TWUL has been on sustained improvement in the performance of the regulatory business, delivering the regulatory contract and improving levels of service to customers. This has seen the company achieve its leakage target the four years in succession; reduce the number of properties at risk of low pressure to its lowest ever level; over 99% compliance across all of the company's sewage treatment works for two years in succession; and achieve industry leading water quality compliance. TWUL has also been widely recognised for the way in which it conducts business, including its health and safety performance, its continued commitment to carbon reductions or the way in which it manages its impacts on society and the environment.

TWUL has a challenging set of outputs to deliver for the AMP5 Period, within an increasingly difficult operating environment. TWUL needs to look at new ways to sustain operating savings and grow the business.

TWUL will continue to focus on sustaining improved performance in the core Appointed Business, whilst establishing a platform that will ensure it can predict, respond and capitalise on new opportunities as regulatory/market reform starts to be implemented.

TWUL's future strategy will be framed by a number of central themes:

(a) Operational excellence - running right through the business, doing what it does now, better. Innovating to deliver operational efficiencies, continuing to be at the forefront in managing health and safety, establishing itself as an employer of choice.

(b) Sustainability - recognising that to continue to be successful as a business it needs to effectively manage resources where they are scarce, continue to sustain the financial performance of the business to support future investment and long term service

improvement and to continue to attract talented staff from an increasingly competitive labour market.

(c) Stakeholder Engagement - working effectively with all of its stakeholders, helping to shape the future of the water industry with clarity of purpose and consistency of message.

(d) Customer experience - understanding not just what it does but how it does it and delivering service to customers in a way which allows them to trust TWUL, find it easy to deal with and shows that TWUL cares.

(e) Growth - building a platform for sustained business growth, leveraging off its assets and core capabilities.

Water Supply Services

TWUL is responsible for the sourcing, treatment and distribution of water in the Water Region. What follows is a description of the key features of TWUL's water supply services and the challenges facing TWUL, together with TWUL's associated responses.

Customers

During the year ended 31 March 2011, TWUL supplied an average of approximately 2,588 Ml/d of water to approximately 3.6 million properties in the Water Region, representing all but a very small percentage of properties in the Water Region. In addition, in the same period, TWUL installed 23,310 new water connections for households and non-households. TWUL's customer base for water services is predominantly households, accounting for approximately 74 per cent. of its delivered volume during this period. Non-household customers represented the balance of TWUL's delivered volume. Approximately 94 per cent. of TWUL's water customers are households.[5]

Water Resources, Treatment Infrastructure and Distribution

Water resources fall into two basic categories: surface water (primarily sourced from rivers) and groundwater (principally from aquifers). TWUL derives approximately 68 per cent. of its water resources from surface sources with the remaining 32 per cent. being delivered from groundwater sources. Abstractions from these sources are made pursuant to abstraction licences issued by the Environment Agency as described further in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

Abstracted water is treated at water treatment works prior to distribution to customers through water mains and service pipes. TWUL operates approximately 100 water treatment works of which the ten largest account for approximately 70 per cent. of TWUL's total water treatment capability. Water from approximately 40 per cent. of operational groundwater sources can be of such a quality that only disinfection treatment is necessary. Water from the remainder of the operational groundwater sources requires additional processes of varying complexity to ensure both natural and man-made contaminants can be treated to meet TWUL's water quality standards. In some cases, water abstracted from rivers may be fed directly to the water treatment works which can increase its vulnerability to contamination. For the majority of surface water abstractions, raw water abstracted from rivers is stored in bankside storage reservoirs before being fed to the treatment works. For all abstractions, water quality monitoring ensures that any necessary corrective action can be taken as and when required. In 2010, TWUL commissioned and began operating a desalination plant in east London, which uses reverse osmosis technology to convert brackish water from the Thames estuary into drinking water (the "**Thames Gateway Water Treatment Works**"), and is capable of producing 150 million litres of potable water each day from the brackish waters of the River Thames estuary and is principally for use during drought periods. It is the largest brackish water desalination plant in Europe, and is unique in its capability to treat variable estuarine water quality. More information on TWUL's water quality

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[5] Estimate as at May 2011.

standards is contained in the section below entitled "*Drinking Water Quality*".

TWUL distributes treated water through approximately 31,000 kilometres of trunk and distribution mains, an estimated 90 per cent. of which are made of ferrous metal, and operates a total of approximately 380 service reservoirs (based on the classifications of the DWI). TWUL also has approximately 210 treated water pumping stations. In 1994, TWUL opened an underground tunnel, 83 kilometres long and 2.5 metres in diameter, which acts as a "ring of water" enabling water to flow around London via an integrated network (the "**Ring Main**"). The Ring Main has a capacity of 1.3 billion litres and provides water to customers in London via four connected treatment works. During 2010, TWUL completed the final stages of an extension programme which provides connections to the Ring Main for the water treatment works at Coppermills in north-east London and the Honor Oak treated water reservoir in south-east London. The extension gives TWUL the ability to transfer treated water around London which provides a greater level of resilience for its customers.

Supply and Demand Management

TWUL's supply area is one of the driest in terms of rainfall in the UK and has been defined by the Environment Agency as an area of water stress[6]. In order to ensure there is sufficient water to supply TWUL's drinking water customers, both now and in the future, TWUL needs to manage its water resources, treatment and distribution efficiently and effectively. TWUL is required to outline its long-term supply and demand strategy in a water resources management plan ("**Water Resources Management Plan**"). Originally the Water Resources Management Plan was prepared voluntarily and submitted to the EA on a 5-yearly cycle.

Since April 2007 the requirement to produce a Water Resources Management Plan has become statutory (pursuant to section 37A to 37D of the WIA and supporting regulations and directions) with a statutory requirement for Water Resources Management Plans to be submitted to the Secretary of State every five years, and for the first time they were subject to public consultation. On 7 May 2008, TWUL published for public consultation a draft Water Resources Management Plan, covering the period from 2010 to 2035. The draft Water Resources Management Plan documents how TWUL intends to balance water supply and demand over the next 25 years given the challenges presented by population growth, increase in per capita consumption, the recent economic downturn and climate change. The consultation period ran for 16 weeks and ended on 27 August 2008. TWUL received 315 representations on the draft Water Resources Management Plan. In response to the representations received as part of the public consultation, TWUL published a Statement of Response in February 2009. In August 2009, following consideration of TWUL's draft Water Resources Management Plan and Statement of Response, the Secretary of State requested a public inquiry (the "**Public Inquiry**") in connection with the draft Water Resources Management Plan. A revised draft Water Resources Management Plan was published in September 2009.

The Public Inquiry commenced in June 2010 and lasted five weeks and the outcome was announced on 1 March 2011. The Secretary of State, based on the conclusions of the Planning Inspector (the "**Planning Inspector**"), requires TWUL to modify its draft Water Resources Management Plan. The Planning Inspector concluded that, whilst the draft plan would enable TWUL to maintain a secure supply over the over the Water Resources Management Plan period (2010 - 2035), it did not meet the statutory requirement under section 37A(1) and section 37A(2) of the WIA. On receipt of a direction from the Secretary of State, TWUL will amend its Water Resources Management Plan to ensure it complies with the direction and will accordingly be considered fit for purpose.

The main elements of TWUL's strategy to 2035 as set out in the draft Water Resources Management Plan are:

(a) further significant reductions in leakage through TWUL's Victorian mains replacement programme (the "**VMR Programme**"), in London and active leakage control in the Thames Valley;

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6 Water resources in England and Wales - current state and future pressures, Environment Agency, December 2008.

(b) a 15 year compulsory targeted metering programme intended to result in 80 per cent. of individual households being placed on a metered billing basis by 2025, with the remainder metered and billed based on a common supply (i.e. where properties are in blocks of flats and cannot be split on an individual basis) or billed on the basis of TWUL's assessed household charge where metering is impractical or uneconomic;

(c) an enhanced programme of encouraging the efficient use of water by customers;

(d) short-term resource development in the Swindon/Oxfordshire area, primarily from groundwater resources; and

(e) in the longer term, taking account of the population growth, climate change and potential reductions in water supply (which will be linked to achieving the objectives of the Water Framework Directive), TWUL anticipates that there will be the need for additional resource development. Exactly what will be required has not been finalised and the decision will be reviewed and progressed during the current AMP period.

Demand management therefore forms the principal part of TWUL's objectives in the short and medium term with major resource development required in the longer term.

Drinking Water Quality

To assess compliance with the drinking water standards established in the Water Quality Regulations, TWUL monitors drinking water quality through an extensive programme of regular sampling and analysis. The Water Quality Regulations require that samples must be taken depending on the volume produced or the population served. In addition, all service reservoirs must be sampled weekly. Various other monitoring and protective measures are employed, which include the provision at all works of online automatic analysers which alert management locally or at control centres if operating limits for chlorine and, at certain works, acidity, nitrates or turbidity, are reached.

TWUL has maintained a high level of compliance with drinking water standards. During the calendar year 2010, TWUL attained a compliance level of 99.97 per cent.[7] in respect of mandatory EU and UK drinking water quality standards. This performance has been achieved as a result of a combination of ongoing investment in the water treatment processes and changes to operational practices. Granular activated carbon and ozone processes have been installed at many water treatment works to meet the stringent standards for the removal of pesticides, but there has also been investment in additional processes for dealing with nitrates, cryptosporidium and solvents and to improve compliance with new standards for lead.

Leakage Control and Security of Supply

Reducing leakage has been, and remains, one of TWUL's main operational priorities. At the start of AMP4, before TWUL embarked on a major investment programme to replace large sections of mains network, more than half of the water mains in London were over 100 years old, while around one-third were over 150 years old. Considerable investment was allowed in the price limits for the AMP4 Period to address this issue.

During the AMP4 Period TWUL invested heavily to reduce leakage. The most significant part of this activity has been the instigation of the Victorian Mains Replacement (VMR) Programme focusing on replacing the pipe network in those areas of London where mains are oldest and leakage and pipe and water main bursts are highest. The mains replacement programme has been delivered alongside the delivery of new pressure management and zonal improvement schemes and an extensive programme of leak detection and repair activity. This high level of targeted activity delivered major leakage reductions. In 2009/10 TWUL achieved an annual average leakage level of 670 Ml/d and was able to report meeting TWUL's leakage target for a fourth successive year. This brought total leakage

[7] Figure to be confirmed in the DWI 2011 Annual Report.

reductions since 2003/04 to 277 Ml/d, 29% of the peak amount. This activity has not only reduced leakage but also the number of bursts and the subsequent inconvenience that this brings to TWUL's customers. In the 2008 June Return TWUL was able to report "stable serviceability" to Ofwat, one year ahead of target.

TWUL also has an obligation to maintain security of water supplies to its customers. In 2005/06 TWUL had a large gap between expected customer demand and TWUL's ability to meet that demand in times of severe drought. Since then TWUL has invested heavily in addressing the shortfall on both the demand side (principally leakage reduction) and on supply side enhancements with the largest scheme being the Thames Gateway Water Treatment Works (TGWTW) desalination plant. The TGWTW scheme was delivered in 2009/10 with a fully audited benefit of 150 Ml/d. As a result, in 2009/10 TWUL was not only able to report surpassing its SoSI target, but for the first time report closure of the supply and demand gap in London with a SoSI of 100 for annual average conditions.

(a) Current performance - leakage

With the gap between supply and demand now closed, and with Ofwat's instruction to remove the effects of climate change from the supply and demand planning assumptions, TWUL's leakage targets over the next five years are to hold leakage close to 2009/10 levels, with just a 2 Ml/d reduction between 2009/10 and 2014/15. The 2010/11 leakage target is 674 Ml/d and therefore leakage levels need to be held close to that of the previous year.

The 2009 Final Determination only provided for partial funding of TWUL's Final Business Plan leakage programme; it did not allow for a leakage reduction programme but instead included funding to manage recurrence and hold leakage constant through a combination of mains replacement and "find and fix" activity. The need to reduce leakage was driven by mitigation of the forecast impacts of climate change and no climate change related investment was funded by Ofwat pending the outcome of analysis of the new UK Climate Panel 2009 scenarios.

The 2009 Final Determination gives an annual target for leakage but provides TWUL with the flexibility to optimise the mix of activities used to achieve the target. As a result, the majority of the leakage control activities undertaken in 2009/10 continued to be delivered in 2010/11.

Given that the funding for leakage control and the associated leakage targets were very different in the 2009 Final Determination to the planned programme of work in TWUL's Final Business Plan, a significant review of the work programme was required at the start of the period to ensure efficient expenditure of the revised investment. The funding limits mean it is essential to select the most cost effective options for leakage control. The capital expenditure activity delivered in 2010/11 has been a mixture of full district meter area level mains replacement, partial cohort level distribution mains replacement, pressure management and trunk mains repairs. The capital schemes are supported by high levels of "find and fix" activity to detect and repair leaks as they break out on the pipe network.

December 2010 saw exceptionally cold weather across the UK and it was the coldest December recorded in over 100 years. This severe weather caused a significant increase in the outbreak rate of leaks and a rapid escalation in leakage levels. In response, TWUL implemented its winter contingency plan and applied extreme levels of focus to ensure the leakage target was met for another year.

Despite the exceptionally cold winter, TWUL's leakage level for 2010/11 outturned at 665 Ml/d against Ofwat's 2009 Final Determination target of 674 Ml/d. Accordingly, TWUL has met its leakage target for a fifth consecutive year and this brings total leakage reductions achieved since the peak in 2003/04 to 281 Ml/d, a reduction of approximately 30%.[8]

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8 All numbers in this paragraph remain subject to audit.

(b) Current Performance - SoSI

TWUL's SoSI outturn in 2010/11 for annual average demand conditions is 100 out of 100 and, accordingly, the security of supply to customers has been maintained. This performance is unchanged from the previous year with all water resource zones in surplus, although the figures exclude the forecast impact of climate change on water resources as specified within Ofwat's 2009 Final Determination.

Last year the SoSI for the week of the highest demand in the year (the "**Critical Period**") was 99 out of 100, with a small deficit in one water resource zone, Swindon and Oxfordshire. This year three schemes have been successfully delivered, resulting in the deficit being removed under peak conditions, two years ahead of target. As a result, this year the SoSI for the Critical Period is 100 out of 100, ensuring TWUL can meet its target levels of service to customers in times of drought for both 'annual average' and 'peak week' conditions.

Ofwat Performance Measures

Two of the key measures of operational performance by a water undertaker are water pressure and interruptions to supply that can affect customers. In addition, Ofwat also assign TWUL an assessment in respect of each of water infrastructure and water non-infrastructure serviceability, respectively.

(a) Mains bursts

Water mains bursts are expressed as the number of water main bursts per 1000 kilometres of distribution water mains in a Regulated Company's network. In 2009/10 TWUL's performance was 312 bursts per 1,000 kilometres and this has reduced to 299 bursts per 1,000 kilometres in 2010/11. The improved performance has been delivered through an increased focus on managing water pressures both at water treatment works and within the water distribution network by: (i) maintaining a smoother pressure profile; and (ii) as a result of the delivery of the VMR Programme.

(b) Water pressure

Water pressure is recorded as Ofwat's DG2 measure, which refers to "properties at risk of experiencing low water pressure". In 2010/11, only 0.0003 per cent. of TWUL's connected properties were registered as being at risk of low pressure, and this performance has been maintained for the last three years.

(c) Interruptions to supply

Interruptions to supply are recorded as Ofwat's DG3 measure, which refers to "properties experiencing unplanned supply interruptions". TWUL's DG3 performance score (an index of the number of properties affected by unplanned supply interruptions as a percentage of the total properties connected to water) moved from an index of 0.24 in 2009/10, to 0.58 in 2010/11. TWUL's adverse performance resulted from one major event in the London area and the high impact on customers following this event was due to exceptional circumstances in network configuration and asset types. Mitigating actions have been identified and implemented. TWUL is maintaining focus on performance levels by improvements to operational response, by examining the root cause of recent incidents and by developing a profile of the areas of the network most at risk of large scale events where investment may be necessary.

(d) Serviceability assessment by Ofwat

As described in Chapter 6 "Regulation of the Water and Wastewater Industry in England and Wales", Ofwat attribute Regulated Companies with serviceability ratings for water and sewerage services. In 2010/11, TWUL received an assessment for its water services of "stable" for both infrastructure and non-infrastructure serviceability. For 2010/11 (as reflected in the 2011 June Return), in relation to each measure, TWUL anticipates receiving

"stable" assessments. Ofwat are expected to issue their preliminary assessment of TWUL's serviceability for 2010/11 in July 2011 with the final assessment expected to be published later in the year.

TWUL is also carrying out a large engineering project in London to improve the way that it supplies water. This is called the "Network Improvement Project" and has two main areas of work:

(a) dividing up large water supply areas (known as zones) into smaller areas in order to deliver water more efficiently and meet local demands, referred to as "zonal reconfiguration"; and

(b) carrying out "pressure management" exercises to reduce the strain on mains and thereby reduce the likelihood of bursts. The stress placed on the mains is partly caused by variations in pressure throughout the day and night as demand fluctuates over the course of that time.

These activities and the acceleration of the VMR Programme have delivered, and TWUL anticipates will continue to deliver, benefits in reducing the number of burst mains.

Sewerage Services

The following section contains a description of the key features of TWUL's sewerage services business.

Customers

For the year ended 31 March 2011, TWUL received an estimated flow of 2,895 Ml/d of wastewater (including trade effluent) into its sewerage network, which serves approximately 5.4 million properties. During the year ended 31 March 2011, TWUL installed 40,431 new sewerage connections to households and non-households. Approximately 95 per cent. of TWUL's waste water customers are households.

Sewerage Infrastructure

TWUL is responsible for approximately 69,000 kilometres of sewers including 1,900 kilometres of rising main. Approximately 30 per cent of TWUL's sewerage system, including most of the directly managed trunk sewers and all of the rising mains, are critical sewers, which means either that the sewers are strategically important, or that in the event of failure, engineering repair costs or social impact costs are likely to be high. An inspection programme is being undertaken on all of the gravity sewers with particular emphasis being placed on those sewers where the consequences of failure are believed to be the most significant.

Ofwat Performance Measures

There are a number of measures used by Ofwat to assess the serviceability of the sewerage assets and to ensure that the sewerage undertaker is delivering the appropriate levels of capital expenditure and operational resources. There are nine measures and these cover both the infrastructure assets and the non-infrastructure assets. Ofwat consider the serviceability of these two asset groups separately and assessed both as being "stable" at the end of 2009/10. TWUL is proposing that this assessment is maintained in 2010/11 which demonstrates its long-term commitment to the maintenance and operation of these assets. With respect to waste serviceability indicators, Ofwat are expected to issue their preliminary assessment of TWUL's serviceability for 2010/11 in July 2011 with the final assessment expected to be published later in the year.

(a) Sewer collapses

In 2010/11, there was an average of 3.9 sewer collapses (including bursts on rising mains) per 1,000 kilometres in the Sewerage Region. This represents an improvement on an average of 5.4 in 2009/10. This is partly attributed to the renovation programmes undertaken in AMP4 and also to earlier interventions where the sewer has yet to fail completely and be recorded as a collapse.

(b) Sewer flooding due to overloaded sewers

In 2010/11, the number of properties that were internally flooded, excluding those as a result of severe weather events, was 77 (264 in 2009/10). The reduction is mainly attributed to weather patterns not overloading the network during periods of inclement weather but is also a measure of both the properties alleviated in AMP4 and successful liaison with developers and local authorities that new developments do not overload the network.

TWUL is required to maintain a register of properties that flood internally due to incapacity more frequently than once every 10 years. At the end of 2009/10 there were 1,604 such properties. Ofwat have set TWUL a 5-year target to reduce the size of this register.

(c) Sewer flooding due to other causes

Properties may be flooded for reasons other than lack of hydraulic capacity. These flooding incidents are known as flooding due to other causes and may be caused by a range of incidents such as a sewer blockage, a sewer collapsing or a pumping station failing. In 2010/11 843 properties were internally flooded due to other causes (796 in 2009/10). The reasons for the increase in 2010/11 are not fully understood especially as the sites are spread over a large geographical area but improvements in sewer cleaning and responding to blockages are being implemented and these incidents are expected to reduce as a result of these preventative measures.

(d) Pollution incidents

Pollution incidents arising from combined sewer outfalls, rising mains and foul sewers that are graded as Category 1, 2 or 3 in severity are reported on a calendar year basis. In 2010 there were 76 incidents (106 in 2009).

(e) Sewer Blockages

This records the numbers of blockage events on the sewerage network. Ofwat have set a target for the reduction in numbers by the end of AMP5 to a value of just over 43,000. In 2010/11 the number of blockages was 54,373 (52,908 in 2009/10). Work is currently being undertaken in blockage "hot spots" is expected to produce a reduction next year.

(f) Equipment Failures

This records the numbers of significant equipment defects on the sewerage network. Ofwat expect stable numbers in AMP5 to reflect stable serviceability. The number of equipment failures reported in 2010/11 is 7,103 (compared to 7,691 in 2009/10). The reduction from last year is not thought to reflect any significant change in the size of the asset base nor any change in the condition of the asset base but is attributable to improved reporting of equipment defects.

(g) Serviceability assessment by Ofwat

TWUL's sewerage infrastructure serviceability was assessed by Ofwat as "marginal" for 2005/06. An action plan was developed and agreed with Ofwat to restore infrastructure serviceability to "stable" by the time of the 2009 June Return. This was achieved in 2007/08 and has been maintained ever since. For 2011 TWUL is proposing an assessment of "stable" serviceability.

TWUL's sewerage non-infrastructure serviceability was assessed by Ofwat as "deteriorating" for 2006/07; this improved to "marginal" for 2007/08, and there was a further improvement to "stable" for 2008/09 and this has been maintained in 2009/10 and 2010/11. See Chapter 6 *"Regulation of the Water and Wastewater Industry in England and Wales"* for a description of how Ofwat assesses serviceability.

Other Performance Measures

These measures are based around effluent compliance with both the Urban Waste Water Treatment Directive (the "**UWWTD**") and the WRA. The first four measures which Ofwat use to measure TWUL's performance in this area cover compliance with both of these pieces of legislation as a number of failing works against an absolute value and also as a percentage of the population served by those works. In the 2010 calendar year, TWUL reported no failing works under either piece of legislation.

The improvements in performance compared to 2009 arose from the completion of a compliance recovery programme during AMP4 and a highly targeted capital programme in 2010/11. All works close to failing have also been the subject of an action plan that is reviewed each month with quick follow up measures taken to improve operational practice or deliver small scale remedial works.

Unplanned Maintenance

This records the numbers of significant equipment defects on both the above and below ground assets on the network. Ofwat expect stable numbers in AMP5 to reflect stable serviceability. The number of equipment failures reported in 2010/11 figure is 18,478 (compared to 20,363 in 2009/10). The reduction from last year is not thought to reflect any significant change in the size of the asset base nor any change in the condition of the asset base but is attributable to improved reporting of equipment defects.

Discharges of Sewage into the Tidal River Thames - London Tideway Improvements

TWUL has a twin-track approach to address discharges of untreated sewage into the tidal river Thames from sewage treatment works and from Storm/Combined Sewer Overflows ("**CSO**s") built into London's sewerage system: the Lee Tunnel (as defined below), and the Thames Tunnel (as defined below) and associated sewage works upgrades.

In March 2007, the Government instructed TWUL to develop the Lee Tunnel and the Thames Tunnel (together, the "**London Tideway Tunnels Project**" or "**Tideway Tunnel Project**") to reduce substantially the volume and frequency of untreated (storm) sewage discharged from London's Victorian sewers into the River Thames and its tributary the River Lee following significant rainfall.

Along with separate investment to improve TWUL's five largest sewage treatment works that discharge into the tidal River Thames, the tunnels are a key part of the UK Government's strategy to ensure the UK complies with the UWWTD (as defined below).

The tunnels were the conceptual solution recommended by the Tidal Thames Strategic Study in 2005. Independently chaired by Professor Chris Binnie, the group that produced the study was established in 2000 to assess possible solutions to the problem of sewage in the river Thames and the river Lee. Its membership included the EA, the Greater London Authority (the "**GLA**") and others, including Ofwat, as an observer.

Current estimates are that in a typical year some 39 cubic meters of storm sewage overflow into the river from the Beckton and Crossness sewerage catchments. In wetter years, this figure can increase markedly.

The untreated (storm) sewage discharges currently occur more than once a week on average, due to a lack of capacity in the capital's existing sewer network, which takes both foul sewage flows and surface run-off due to rainfall. They occur via 57 designed-in Combined Sewer Overflows ("**CSOs**") to allow sewage to flow into the river after rainfall, rather than back up on to the streets of London.

Climate change, population growth and urbanisation (for example, the continuing replacement of absorbent surfaces such as front gardens to impervious surfaces such as car parking) add to the need for appropriate action to address the problem. In certain circumstances, as little as 2mm of rainfall can trigger a discharge of untreated sewage.

Flows from both the Thames and Lee tunnels are to be transferred to the Beckton sewage treatment

works (the "**Beckton STW**") in East London. The capacity of this site is currently being greatly extended to accommodate the projected flows and allow full treatment of the sewage.

(a) The Lee Tunnel

Construction on the seven-kilometre Lee Tunnel (the "**Lee Tunnel**") through Newham in east London began in 2010. The tunnelling work is due to commence in 2012 and be completed in 2014 with the commissioning of the tunnel expected in late 2015.

The cost of the Lee Tunnel project is included in the 2009 Final Determination.

(b) The Thames Tunnel

(See also "*Risk arising from the Thames Tunnel*" set out in Chapter 4 *"Risk Factors"*) Currently in the early design phase, it is proposed that the Thames Tunnel (the "**Thames Tunnel**") broadly follows the path of the river in order to enable the inception or control of the 34 (of the 36) CSOs that the EA has identified as the most polluting.

The tunnel's precise route, including the starting point in west London has still to be determined. The first phase of public consultation has been completed, resulting in changes to the initial route and a second phase is planned for September 2011. The target date for the submission of a planning application is mid 2012.

Transfer of Private Sewers

Please see the section on "*Transfer of Private Sewers*" set out in Chapter 4 (Risk Factors).

Sewage Treatment and Compliance with Discharge Consents

Sewage collected in the sewerage system is directed to sewage treatment works for treatment, the purpose of which is to protect the environment by reducing the polluting impact of incoming sewage in order to comply with the terms of the relevant discharge consents. TWUL is 100% compliant with its discharge consents under the Look up Table. The Look up Table sets out the number of permitted failures against the number of tests undertaken at any site.

Customer Charges

Charges for water supply and sewerage services are calculated separately based on the average costs of providing each service for each class of customer. Customers with unmetered supplies are billed primarily in advance on an annual basis, with payment being annually, semi-annually or by monthly instalments. For supplies of metered water, non-household customers are billed either monthly, quarterly or semi-annually in arrears, depending on the volume of their consumption, and household customers are normally billed semi-annually in arrears.

Charges for bulk supplies of water (i.e. to another water undertaker) are usually determined on an individual basis, as are charges for some larger trade effluent customers. The charging basis for bulk supplies in some cases provides for annual recalculation by reference to the expenditure associated with the supply. Trade effluent from industrial users is normally charged on a formulaic basis taking account of the volume of effluent, its strength and costs of removal and treatment.

As set out in the section above entitled "*Regulation and Licence*", in the 2009 Final Determination certain price increases were permitted throughout the AMP5 Period. Separate charges are made for water supply and sewerage services, and the combined average water supply and sewerage services bill for both metered and unmetered household customers during the 2010/11 billing period was approximately £307 for the year.

Metering Customers

Metered charges are principally based on the volume of water supplied. TWUL has applied metered

charges on all new properties, those properties which have been converted into flats since 1989, and is also entitled to place such charges on household customers who have certain categories of non-essential water use (for example, customers having a swimming pool or a garden irrigation system). In addition, all household customers can opt to have a meter fitted, where practicable, without incurring a charge.

Separate charges can be made for trade effluent, bulk supplies of water and one-off services. In respect of non-household use, almost all non-household customers pay for water usage by volume, the only exceptions being in cases where metering has proved impractical or uneconomic.

32.2 per cent. of TWUL's customers within its water supply zone, and 34.3 per cent. of TWUL's customers within its sewage area, are metered.

Bad Debts

Following the introduction of the Water Industry Act in 1999, regulated water and sewerage companies were barred from disconnecting household customers from their water supply for failure to pay bills. Non-household customers, however, are subject to a number of actions, including disconnection where persistent failure to settle charges occurs. TWUL, through the use of a dedicated billing call centre, contacts customers who are in arrears and arranges payment plans wherever possible. TWUL's outstanding revenue for households and non-households, as a percentage of turnover in 2010/11 is 20.9 per cent.

Once the TWUL Water Resources Management Plan is approved, a selective metering programme will commence. This is likely to be a relatively small programme during the current AMP period however, this programme may have an impact on the overall debt levels of TWUL. There is a cross-subsidy in the rateable value ("**RV**") charging methodology from high-RV homes to low-RV homes, which is unwound when meters are installed. Some customers, particularly large families, could see their water bills rise, with the likely consequence being increased debt for TWUL. However, high-RV households with low consumption will see their bills fall which is likely to result in a reduction in overall debt for TWUL.

Outsourcing

The principal activities that TWUL outsources relate to its capital investment programme and various components of its day-to-day maintenance operations. This is a common and long-standing practice among the water and sewerage undertakers in the UK. TWUL has engaged a number of key partners to deliver its capital investment programme; the distribution of work among these partners varies according to the nature of the projects being undertaken.

TWUL outsources services including payroll and IT support and Procurement Managed Services. The arrangements are typically a reflection of Good Industry Practice.

TWUL has controls and processes in place to ensure appropriate risk assessment and management is applied when entering into outsourcing contracts and in selecting partners, and also to ensure that transfer pricing rules are properly observed. Any decision on outsourcing will be made within the context of TWUL's future strategy to ensure this serves the best interests of the business over the medium to long term.

Insurance and Risk Management

TWUL maintains insurance coverage consistent with the principles of Good Industry Practice. This insurance is maintained as part of the Thames Water Group insurance programme. The insurance coverage has been reviewed and approved by an independent insurance adviser retained to ensure that TWUL's insurances: (i) are consistent with Good Industry Practice; (ii) have regard to the risk being covered; and (iii) address the interests of TWUL and each finance party.

Pensions

The majority of employees in TWUL participate in the TWPS or the TWMIPS, which are funded by both employer and employee contributions. These schemes are "defined benefit" schemes. The assets

are held in trust funds which are administered separately from the assets of the employers participating in the schemes. The Financial Reporting Standard 17 (Retirement Benefits) ("**FRS 17**") basis deficit at 31 March 2011, for all of the Thames Water Group's defined benefit pension schemes, totalled £94.6 million net of deferred tax. The net deficit reflects a deficit in the TWPS of £165.8 million and a surplus in the TWMIPS of £38.0 million. As the two schemes are separate, a surplus in one scheme cannot be set off against a deficit in the other[9].

The previous full actuarial valuation was undertaken as at December 2007. This valuation was updated at 31 March 2010 using revised assumptions that are consistent with the requirements of FRS 17. The latest full actuarial valuation is being carried out as at 31 December 2010. Increases in contributions following the 2007 valuation were agreed with the Trustees of the schemes in March 2009 resulting in an annual deficit repayment (linked to the Retail Price Index) of £22.8m; it was previously anticipated that further increases might be required to these schemes following the next full actuarial valuation. TWUL has implemented changes to the way in which benefits in TWPS will be earned for future service from 1 May 2011, thereby reducing contributions for TWUL and members for future service. However, the deficit repair payments made by TWUL are likely to decrease once the current actuarial valuation is finalised and TWUL estimates that its total deficit repair payments will decrease to around £21 million per year.

Whereas historically the employers have had control over their contributions to the schemes, under the Pensions Act 2004, contributions need to be agreed between employer and trustees, with the UK Pensions Regulator acting as final arbiter in the event of dispute.

Following the introduction of a new defined contribution ("**DC**") arrangement from 1 April 2011 into which new employees will be enrolled, both the TWMIPS and TWPS are now closed to new members. The DB pension arrangements are of the group "multi-employer scheme" nature, such that TWUL's pension scheme assets and liabilities are included with those of other companies in the Thames Water Group. TWUL makes the vast majority of the contributions into the schemes.

For additional information regarding TWUL's pension commitments and the effects they would have on, *inter alia*, TWUL's net assets and profit and loss reserve, see the audited financial statements of TWUL for the year ended 31 March 2010 and the section of this Chapter entitled "*Ring-fencing and the TWU Financing Group – Ongoing Trading Relationships with other Thames Water Group companies – Pension Scheme*".

Sustainable Business Development

TWUL has environmental policies in place to recognise that good environmental management is fundamental to business success. TWUL uses these and wider sustainability principles to plan and operate in an environmentally, socially and economically responsible way; meeting the needs of the business, its customers and stakeholders, and the environment without disadvantaging future generations.

TWUL's approach to sustainability is led by its Corporate Social Responsibility department with specialist environment and corporate responsibility teams overseeing strategy development, implementation and performance improvement across the business.

TWUL's Health, Safety and Environment Committee advises the board of directors of TWUL (the "Board", the members of which are described in "The TWU Financing Group - TWUL - Directors of TWUL" below) on any matters of significance affecting health, safety, environment and corporate responsibility, and meets at least four times each year. Within TWUL's Executive Team, the Chief Operating Officer leads on health and safety, and the External Affairs & Sustainability Director leads on matters of sustainability.

Each year, TWUL publishes a corporate responsibility report which describes the company's approach

[9] Figures in this paragraph come from the final 2011 Accounts.

to corporate responsibility and sustainability matters, and reports on recent performance. A materiality assessment is used to help prioritise what is reported, which includes consideration of finance, risk and reputation issues; legal and policy drivers; senior management perspective; industry/peer reporting; and the views of stakeholders and the media. Material issues are set out in the main report, with further details and less material issues included in TWUL's web-based reporting. The report is verified externally each year.

TWUL participates in the Business in the Community Corporate Responsibility Index as well as in the London Benchmarking Group reporting of community involvement.

As a member of Water UK, the body representing water companies and other water organisations in the UK, we take part in the annual reporting of Water UK Sustainability Indicators. The report shows progress against industry-wide indicators covering a range of environmental, social, economic and business performance issues.

TWUL also contributes to the "State of the Sector report" – a five-yearly review of progress on sustainable development in the water sector, issued by Water UK.

Litigation

No member of the TWU Financing Group is or has been involved in, nor, so far as each such member is aware, has any pending or threatened, government, legal or arbitration proceedings, during a period covering at least the previous 12 months which may have, or have had in the recent past, a significant effect on the financial position or profitability of such member.

RING-FENCING AND THE TWU FINANCING GROUP

As part of its obligations as a Regulated Company, TWUL is subject to certain ring-fencing restrictions under its Licence. On 31 May 2007, following the conclusion of a public consultation process, Ofwat announced in a position paper entitled "*The completed acquisition of Thames Water Holdings plc by Kemble Water Limited*"(the "**Position Paper**") their intention to strengthen the regulatory ring-fencing for TWUL through the incorporation into the Licence of some additional conditions. See the section *"Regulatory Ring-fencing"* below, which sets out both the Licence provisions as implemented on the Initial Issue Date and the additional conditions formally incorporated into the Licence with effect from 8 November 2007 reflecting the amendments set out in the Position Paper.

In addition, to reduce TWUL's exposure to credit and event risk of other Thames Water Group companies, the Thames Water Group created a new "ring-fenced" financing group (being the "**TWU Financing Group**"). These measures also reflect the requirements of the covenant and security package as summarised in Chapter 7 "*Overview of the Financing Agreements*".

The ring-fencing measures are intended to ensure: (i) that TWUL has the means to conduct its Appointed Business separately from the Thames Water Group; and (ii) that all dealings between the Thames Water Group and the TWU Financing Group are on an arm's length basis. The ownership structure of the TWU Financing Group is set out in Chapter 3 "*Overview of the Financing Structure*".

The main elements comprising the regulatory and structural ring-fencing of the TWU Financing Group from the other Thames Water Group companies are set out below.

Regulatory Ring-fencing

Regulatory ring-fencing is common, in differing degrees, to each of the Regulated Companies in England and Wales pursuant to their respective licences. Under Licence Condition F, as supplemented by RAG 5, TWUL must ensure that transactions between it and its associated companies in the Thames Water Group are on an arm's length basis, to prevent cross-subsidisation of activities. Failure to comply with RAG 5 may in certain circumstances give rise to a breach of the Licence and possibly the Competition Act as described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*". Under Licence Condition K, TWUL must ensure at all times, so far as reasonably practicable, that if a Special Administration Order was made in respect of it, TWUL would have available to it sufficient rights and assets (other than financial resources) to enable the Special

Administrator to manage its affairs, business and property so that the purposes of such an order could be achieved. See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Special Administration Orders*".

Ring-fencing provisions in TWUL's Licence as at the Initial Issue Date

The ring-fencing provisions contained in TWUL's Licence (Licence Condition F) as implemented on the Initial Issue Date are broadly similar to those contained in the licences of all other Regulated Companies. The most important of these provisions are:

(a) **Transactions between TWUL and its associated companies:** Any transaction between TWUL and its associated companies (being its subsidiaries and any affiliated companies) must be conducted at arm's length, such that there is no cross-subsidy of the associated company by TWUL (or vice versa).

(b) **Limits on the transfer of certain assets to associated companies:** Save with the express consent of Ofwat, TWUL is not permitted to transfer certain rights or assets (being those which a Special Administrator would require if a Special Administration Order were made in order to operate the Appointed Business) to an associated company.

(c) **Restrictions on other transactions:** Save with the express consent of Ofwat, TWUL must not: (i) give any guarantee of any liability of any associated company; (ii) make to any associated company a loan; or (iii) enter into an agreement or incur a commitment incorporating a cross default obligation (whether with an associated company or otherwise). There are limited exceptions relating to an existing obligation involving TWUF.

(d) **Restrictions on Dividend Payments:** TWUL is required to only pay dividends in accordance with a policy that complies with the following principles: (i) such payments will not impair the ability to finance its regulated activities; and (ii) the payment of such dividends is to reward efficiency and the management of economic risk.

(e) **Adequate Resources:** TWUL is required at all times to act in a manner "best calculated" to ensure that it has adequate financial resources and facilities and also management resources to carry out its regulated activities (including necessary investment programmes). TWUL's directors are required to certify on an annual basis that this requirement will continue to be met for the subsequent 12 month period. The basis on which such a view is formed must also be disclosed to Ofwat. As soon as the directors become aware of a reason why TWUL cannot be expected to comply with this obligation, they are to file a report to this effect to Ofwat in accordance with the provisions of its Licence.

(f) **Conducting the Appointed Business of TWUL:** TWUL (and its directors) is required to operate the Appointed Business as though it were substantially TWUL's sole business and TWUL was a separate public limited company. In particular, TWUL should:

    (i) have an independent Board which will act independently of the parent company/Controlling shareholders and exclusively in the interests of TWUL;

    (ii) have not less than three independent non-executive directors, who shall be persons of good standing with relevant experience and who shall collectively have connections with and knowledge of the areas within which TWUL operates and an understanding of TWUL's customers' interests and how these can be respected and protected;

    (iii) ensure that all directors disclose any conflicts of interest both to TWUL and Ofwat, and that TWUL's articles of association prohibit a director from voting in any matter in which he has an interest;

    (iv) ensure that, where a potential conflict between TWUL and its corporate group arises, TWUL and its Board has exclusive regard to TWUL's interests as a regulated water and sewerage undertaker;

(v) notify Ofwat of all changes in Board membership and their responsibilities;

(vi) adopt a dividend policy to be adopted by the Board as outlined above; and

(vii) comply with the FSA's Code of Best Practice required by the Listing Rules.

(g) **Publishing of financial information:** TWUL is to publish information about its annual and interim financial results in accordance with the Listing Rules, even though it is not listed.

(h) **Maintenance of a bond listed on the London Stock Exchange:** TWUL is required to maintain a bond issuance and shall use all reasonable endeavours to retain its listing on the London Stock Exchange.

(i) **Maintenance of an investment grade credit rating:** TWUL is currently obliged to use all reasonable endeavours to ensure that it (or any associated company as issuer of corporate debt on its behalf) maintains at all times an investment grade credit rating in relation to its corporate debt. This requirement was modified in November 2007 as further described below.

Modifications to TWUL's Licence

With effect from 8 November 2007, the following additional conditions (or amendments to conditions) were incorporated into the modified Licence Condition F of TWUL's Licence:

(a) **Adequate systems of planning and internal controls:** In order to ensure that TWUL has adequate controls over its operations, Ofwat incorporated an additional Licence Condition into the Licence requiring that TWUL must, at all times, act in a manner best calculated to ensure that it has adequate systems of planning and internal control to enable it to secure the carrying out of the Appointed Business. Such systems of planning and internal control are to comply with such guidance as Ofwat may specify from time to time. This Licence Condition also provides that compliance with the requirement for adequate resources, systems of planning and internal control, must not be dependent on the discharge by any other person of any obligation under, or arising from, any agreement or arrangement under which that other person has agreed to provide any services to TWUL in its capacity as a Regulated Company. As TWUL is required to do in relation to its financial and management resources, TWUL's directors are now required to certify to Ofwat on an annual basis that this new requirement will continue to be met for the subsequent 12-month period.

(b) **Investment grade credit rating:** Ofwat have amended the Licence so that TWUL is now required to ensure that it (or any associated company as an issuer of debt on its behalf) maintains an investment grade issuer credit rating. The issuer rating reflects the financial capacity of the Appointed Business and therefore its ability to raise capital or maintain access to liquidity in the future. Any significant adverse changes to the rating acts as an early signal that the ability of the Appointed Business to raise future finance is at risk.

(c) **Cash lock-up:** A cash lock-up provision has been introduced into Licence Condition F which prohibits, subject to certain limited exceptions, without the regulator's prior consent, the transfer of cash or other assets to an associated company when TWUL: (i) no longer holds an investment grade rating; or (ii) holds a rating at the minimum investment grade level and that rating has been put under review for possible downgrade or is assigned a negative outlook. Ofwat consider that such a provision has the benefit of transparency and of requiring immediate remedial action should the circumstances triggering it arise.

The implementation of the amendments contained in the Position Paper also resulted in a modified Licence Condition P which relates to undertakings by parent companies. The amended Licence Condition P requires TWUL to secure legally enforceable undertakings from its Ultimate Controller and, when such Ultimate Controller is not the UK holding company, from its UK holding company, that they (and each of their subsidiaries (other than TWUL and its subsidiaries)), will: (i) give TWUL all such information as may be necessary to enable TWUL to comply with the Licence; (ii) refrain from

any action which might cause TWUL to breach any of its obligations under the WIA or the Licence; and (iii) ensure that the Board contains not less than three independent non-executive directors, who must be persons of standing with relevant experience and who collectively have connections with and knowledge of the areas within which TWUL provides water and sewerage services and an understanding of the interests of the customers of TWUL and how these can be respected and protected. Under the amended Licence Condition P, TWUL must inform Ofwat immediately in writing if it becomes aware that an undertaking has ceased to be legally enforceable, or that there has been any breach of its terms. TWUL must not, except with the written consent of Ofwat, enter (directly or indirectly) into any contract or arrangement with its Ultimate Controller or any associated company (other than subsidiaries of TWUL) at a time when no such undertaking exists or there is an unremedied breach of such undertaking.

For these purposes, "**Ultimate Controller**" means any person (including, without limitation, a corporate body) who or which (alone or jointly with others and whether directly or indirectly) is (in the reasonable opinion of Ofwat) in a position to control, or to exercise material influence over, the policy or affairs of the Appointed Business or of any holding company of the Appointed Business.

In the Position Paper, Ofwat agreed with the proposals from the Kemble Consortium and TWUL that Kemble Water Holdings Limited should provide the UK Holding Company undertaking, while the Macquarie European Infrastructure Fund and the Macquarie European Infrastructure Fund II should each provide an Ultimate Controller undertaking which is reflected by the amended Licence Condition P.

Structural Ring-fencing

The regulatory ring-fencing measures described above have been enhanced by the separation of TWUL from the other businesses of the Thames Water Group and the establishment of the TWU Financing Group, as described in Chapter 3 "*Summary Financing Structure*". The composition of each of the boards of directors for the companies within the TWU Financing Group is described below. TWUL must comply with the Licence provisions (as amended) regarding the composition of the Board while the additional conditions implemented pursuant to the Position Paper set out further requirements regarding the Board as implemented by TWUL (as further described below). The remainder of the boards of directors of each company in the TWU Financing Group may comprise directors who are also directors of other Thames Water Group companies outside the TWU Financing Group.

Management Compensation

The remuneration policy in place at TWUL, links incentives to the long-term regulatory and financial performance of the business. Executive directors and senior managers participate in an annual bonus scheme and a long-term incentive plan. The annual bonus measures performance against a combination of financial and individual objectives. The long-term incentive plan is linked to the AMP5 Period financial, regulatory and customer service metrics as well as to the development of the business plan in relation to the AMP for the period from 1 April 2015 to 31 March 2020, demonstrating commitment to sustainability of performance. The structure of both the annual bonus scheme and long term incentive plan is reviewed by TWUL's Compensation & HR Committee and approved by the Board.

Security and Covenant Packages

In connection with the Programme, the TWU Financing Group provides as full a security package as is commensurate with the limitations imposed by the WIA and the Licence.

Pursuant to the covenant package (as set out in Chapter 7 "*Overview of the Financing Agreements*"), dividends, management fees (if any), debt service relating to and repayments under certain intra-group debt, loans to related entities, Deferrals of K and other such distributions are only permitted provided that no Trigger Event or Event of Default is continuing and historical and forward-looking interest cover ratios and regulated asset ratios and certain other conditions are met. The security package and the covenant-based ring-fencing restrictions placed on the TWU Financing Group are set out in Chapter 7 "*Overview of the Financing Agreements*".

Business Separation

Historically, TWUL has operated as a separate corporate entity from the other Thames Water Group businesses, and will continue to do so in the future. In addition, from the Initial Issue Date all new debt relating to the Appointed Business must be raised by entities within the TWU Financing Group.

Pursuant to the ring-fencing, TWUL has access to all employees required to run the Appointed Business. The majority of such employees are employed by TWUL.

The general health and safety policy for the Thames Water Group is set by TWUL, and TWUL-specific policy, procedures and administration are carried out by TWUL following direction from the Board and advice from its Health, Safety and Environment Committee.

All transactions entered into by the TWU Financing Group with third parties (including Thames Water Group companies) must be entered into on an arm's length basis. Any transaction between TWUL and the Thames Water Group is formally reviewed to ensure compliance with the Licence, RAG 5 and procurement regulations. In addition, TWUL is required to comply with additional Licence requirements regarding systems of planning and internal control. See the section "*Regulatory Ring-fencing*" above.

As part of the ring-fencing, TWUL's activities are restricted to the business of a Regulated Company in England and Wales. TWUL's management has retained some Permitted Non-Appointed Business and assets within permitted *de minimis* levels. Under the covenant package, the Security Trustee may permit TWUL to enter into limited joint ventures in areas outside the regulated water and sewerage business subject to certain limitations on the aggregate value of all Permitted Non-Appointed Business. See Chapter 7 "*Overview of the Financing Agreements*".

Under the covenant package, TWUL is able to acquire assets or make disposals only if conditions relating to each are met (for example, regulated asset ratio requirements in relation to disposals). See Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement - Covenants - General Covenants*".

Ongoing Trading Relationships with Other Thames Water Group Companies

Pension Scheme

The ring-fencing programme does not segregate TWUL pension arrangements from those of the Thames Water Group, as TWUL believes that it is not cost-effective to do so. However, TWUL's contributions to TWPS and TWMIPS are made in respect of TWUL's employees only. TWUL will enter into agreements with other Thames Water Group companies participating in the schemes to provide that these companies will be responsible for all liabilities in respect of their employees and for a notional or accounting allocation of assets and liabilities of the pension schemes between TWUL and the other Thames Water Group companies in the schemes. These measures are intended to minimise the risk of any cross-subsidy within the schemes between TWUL and other Thames Water Group companies.

Intellectual Property Rights

TWUL has historically organised its Intellectual Property requirements in conjunction with the Thames Water Group. However, TWUL has undertaken a review of patents, trademarks and licences held by it, the result being that TWUL only holds licences in respect of its Intellectual Property Rights that are specific to the operation of the Appointed Business. In terms of Intellectual Property Rights owned by TWUL, some of these are licensed to third parties. Some of the patents relate to water pipe inspection vehicles. TWUL is now investigating options to develop a commercial tool relating to these patents that will be able to inspect water pipes autonomously. These patents are under review, which may result in TWUL obtaining sole ownership of them or otherwise disposing of its rights depending on the business needs of TWUL.

TWUL does not own any Intellectual Property Rights, except as set out above and with respect to Intellectual Property Rights created within TWUL. Save for software licences, the operation of the

Appointed Business is not dependent on any licences in respect of Intellectual Property Rights from third parties.

The TWU Financing Group

TWUL

Company Details

TWUL is a private limited company which was incorporated in England and Wales on 1 April 1989 under the Companies Act with registered number 2366661. The registered office and headquarters of TWUL is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB. TWUL's authorised and issued share capital is £1,029,050,000 divided into 1,029,050,000 ordinary shares of £1 each. All ordinary shares have been issued and have been fully paid-up. TWUL is a wholly-owned subsidiary of TWH. The business address of the directors of TWUL is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB, and the telephone number is +44 (0) 118 373 8000.

The Auditors of TWUL are KPMG Audit Plc, which is a member firm of the Institute of Chartered Accountants in England and Wales.

The Company Secretary and Assistant Company Secretary of TWUL, respectively, are Joel Hanson and Gillian Sarson.

Directors of TWUL and Corporate Governance

TWUL operates under the overall direction of the Board which is responsible for policy and strategic matters. In connection with the acquisition of Thames Water Holdings plc (now Thames Water Holdings Limited) by the Kemble Consortium, a shareholder agreement was entered into between the members of the Kemble Consortium prior to the acquisition of Thames Water Holdings plc, giving members of the Kemble Consortium certain rights in respect of appointing directors to the board of any Thames Water Group company, subject to any order, direction or other instruction given by Ofwat.

The composition of the Board is influenced by the requirements of the Licence (as amended) as described in the section "*Regulatory Ring-fencing*" above. Ofwat require TWUL to maintain adequate executive director representatives and have accepted the replacement of three Kemble Consortium-appointed non-executive directors with three executive directors, thus ensuring that the Board has executive representation. Details of the three executive directors are set out below. Although not a requirement, TWUL has designated a non-executive director as the Board contact for the CCW, details of which are set out below.

TWUL's primary corporate objects are, amongst other things, to carry on the business of a water and sewerage undertaker. It is also empowered to act as a holding company of the Issuer and TWUF. TWUL's independence from its ultimate holding company is enhanced by the inclusion of the provision in TWUL's articles of association that any TWUL director who is interested in any contract or arrangement or proposal by virtue of another directorship is not able to vote or count in a quorum as regards such contract or arrangement or proposal at a meeting of the directors or of a committee of directors. The directors of TWUL support high standards of corporate governance and have particular regard to the Combined Code on Corporate Governance issued by the Financial Reporting Council. As a company registered in England and Wales, TWUL is also subject to the provisions of the Companies Act.

TWUL is pursuing a sustainable development strategy and has put in place corporate governance structures to ensure this strategy is implemented and reviewed. A sustainable development report is produced each year which is subject to independent assessment and also to comment by stakeholders including campaign groups and financial institutions. TWUL has established management systems to ensure compliance with health and safety and environmental regulations in respect of water quality and sewerage disposal.

The Board currently consists of a non-executive Chairman, three executive directors and 11 further non-executive directors (not including the five alternate directors identified below).

There are no potential conflicts of interest between any duties to TWUL of its directors, company secretary or assistant company secretary and their respective private interests or duties.

Directors of TWUL

Non-Executive Chairman

Sir Peter Mason KBE was appointed Chairman of TWUL in December 2006. He brings extensive experience in construction and complex capital investment businesses. He retired as chief executive officer of AMEC plc in September 2006 and was previously Chairman and Chief Executive Officer of Balfour Beatty Limited and a non-executive director of the 2012 Olympic Delivery Authority. He is currently a non-executive director of Subsea 7 and BAE Systems plc.

Executive Directors

Chief Executive Officer

Martin Baggs was appointed chief executive officer in March 2010, having acted as interim chief executive officer since December 2009. Before this he was a non-executive director of TWUL having been appointed in December 2006. He was managing director of South East Water Limited, and he previously served as operations and assets director at Southern Water Services Limited. He managed the divestiture of South East Water Limited from the Macquarie Group. He is a former director of Wales & West Utilities Limited.

Chief Financial Officer

Mark Braithwaite joined TWUL as chief financial officer in August 2007. He was previously finance director of the customer and energy divisions for EDF Energy plc and has also held the position of group financial controller and treasurer at Seeboard plc and group financial controller at EDF Energy plc (following its integration of Seeboard plc, London Electric and SWEB). He is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers.

Chief Operating Officer

Steve Shine OBE joined TWUL in January 2007 as chief operating officer, having previously held the position of chief executive officer at SGB UK, a position occupied since 2003. Prior to this, he was the managing director of 24Seven Utility Services, leading business transformation, operational excellence, regulatory targets and financial results for the electricity distribution business.

Non-executive Directors

Edward Beckley was appointed a non-executive director of TWUL in January 2009. He is an executive director of Macquarie Infrastructure and Real Assets (Europe) Limited and Chief Financial Officer of the Macquarie European Infrastructure Funds. He has a banking background and since joining Macquarie in 1999 has focussed on investing across a broad range of infrastructure sectors. He is a director of Arqiva, Auto Routes Paris-Rhin-Rhone and Wales & West Utilities.

Rosamund Blomfield-Smith was appointed a non-executive director of TWUL in February 2008. She is currently a non-executive director of British Empire Securities plc, Chairman of Moat Homes Ltd, a member of the Wales Audit Office Audit and Risk Management Committee and a Governor of Hartpury Agricultural College. She was previously a director and head of Corporate Finance of Arbuthnot Latham & Co, and a director and head of utilities corporate finance at both ING Barings and N. M. Rothschild & Sons. Earlier in her career she spent 17 years at J. Henry Schroder Wagg & Co. and three years at Morgan Grenfell & Co.

Christopher Deacon was appointed a non-executive director of TWUL in December 2006. He brings extensive experience as a banker and consultant in infrastructure and project finance. He was previously the commercial director of London Underground in respect of the Tube PPP project and is

currently a non-executive director of, and an advisor to, various companies in the infrastructure marketplace.

Dipesh Shah OBE FRSA became a non-executive director of TWUL in October 2007. He is a non-executive director on the Boards of JKX Oil & Gas Plc, The Crown Estate, EU Fund for Energy, Climate Change and Transport (the Marguerite Fund), and chairman of ANHD International Advisory Services Ltd. He was the chief executive of the UK Atomic Energy Authority and of various large businesses in the BP Group, and a non-executive director of Babcock International Group plc and Lloyd's of London. He was chairman of Viridian Group plc, HgCapital Renewable Power Partners LLP and a European trade association. He was also a member of the Government's Renewable Energy Advisory Committee from 1994 to 2002.

Martin Stanley was appointed a non-executive director of TWUL in December 2006. He is Global Head of Macquarie Infrastructure and Real Assets and Chief Executive Officer of the Macquarie European Investment Fund LP. He is a board member of Techem GmbH and was formerly a board member of South East Water Limited and Wales & West Utilities Limited. Before joining Macquarie in July 2004, he was a director of TXU Europe Group plc.

Gordon Parsons was appointed a non-executive director of TWUL in June 2010 and was appointed as alternate to Ed Beckley in March 2011. He is a director of Macquarie Infrastructure and Real Assets and has responsibility for Macquarie's UK Infrastructure Assets. Prior to joining Macquarie, he held executive positions in organisations operating in the energy industry including, RWE Npower, TXU Europe, E.On (formerly Powergen) and East Midlands Electricity.

Antonio Santos was appointed a non-executive director of TWUL in January 2011. He brings extensive experience in infrastructure projects as well as investment in other asset classes. He is former adviser to the Portuguese Government and is currently Chairman and Chief Executive of Finpro, which he founded in 1998.

Robert Verrion was appointed a non-executive director of TWUL in January 2011. He is Head of European Infrastructure Asset Management at AMP Capital Investors with over 20 years financial, operational and international business development experience in the natural gas transmission and distribution industry. He is the former Chief Executive Officer of both Angel Trains Ltd and Metlogas S.A. (Argentina), former Chief Operating Officer and finance director of Transco plc and former finance director of Severn Trent Water Ltd.

Kieren Boesenberg (alternate to Rosamund Blomfield-Smith) was appointed an alternate director of TWUL in April 2009. He is an infrastructure investment advisor for AE Capital Advisers, the UK subsidiary of Access Capital Advisers, a leading independent alternative asset manager based in Australia. He is also currently an Alternate Director of Angel Trains, the largest rolling stock leasing company in the UK, and has professional expertise in both corporate finance and regulatory economics.

Ross Israel (alternate to Christopher Deacon) was appointed an alternate director of TWUL in September 2008. He is Head of Global Infrastructure of QIC with responsibility for investment in infrastructure assets and managed funds. He holds a number of directorships in investee companies managed by QIC on behalf of its clients in the water and transport sectors.

Stan Kolenc (alternate director to Robert Verrion) was appointed an alternate director of TWUL in January 2010. He is a Director OPTrust Private Markets Group, with responsibility for managing a number of OPTrust's infrastructure investments, as well as sourcing and executing transactions. He also holds a number of other directorships on investment company boards of directors and advisory committees. Before joining OPTrust in 2006, he worked for Macquarie Bank Limited where he was active in their global infrastructure business with a focus on investment management and transaction execution.

Lincoln Webb (alternate director to Dipesh Shah) was appointed an alternate director of TWUL in January 2011. He is the Vice President of Private Placements for British Columbia Investment Management Corporation (bcIMC). The Private Placements group has been involved in private equity and infrastructure investments since 1995.

Manuel Guerreiro (alternate director to Antonio Santos) was appointed an alternate director of TWUL in January 2011. He has a degree in Business and Administration and joined the Finpro Group in 1999, becoming a board member of several group companies in 2000. He is also a director of a number of Portuguese industry and distribution companies.

Independent non-executive Directors

Michael Pavia was appointed a non-executive director of TWUL in December 2006. He brings extensive experience in management of regulated businesses. He was previously group finance director of SEEBOARD plc and chief financial officer of the London Electricity Group (EDF Energy Group). He is currently a non-executive director of Salamander Energy plc, Telecom Plus plc and chairman of their audit committees. He is also a member of Council of the ICAEW and chairman of the audit committee.

Dame Deirdre Hutton CBE was appointed a non-executive director of TWUL in July 2010. She is Chair of the Civil Aviation Authority and also sits as a non-executive member of the Treasury Board. She was previously Chair of both the National Consumer Council and Food Standards Agency and formerly Vice President of the Trading Standards Institute. She has also held a number of positions on a variety of bodies dealing with food issues.

Ed Richards was appointed a non-executive director of TWUL in July 2010. He has been the Chief Executive of Ofcom since October 2006, having previously been the Chief Operating Officer. He was previously Senior Policy Advisor to the Prime Minister (Tony Blair) for Media, telecoms, the internet and e govt and Controller of Corporate Strategy at the BBC. He has also worked in consulting at London Economics Ltd, as an advisor to Gordon Brown MP and began his career as a researcher with Diverse Production Ltd where he worked on programmes for Channel 4. He is also a Director of Donmar Warehouse, a Trustee of The Teaching Awards Trust, and a member of the Centre for Economic Performance Policy Committee at the London School of Economics.

The business address of the directors of TWUL is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB.

Subsidiaries

At the date of this Prospectus, TWUL has no subsidiaries other than the Issuer, TWUCFH and TWUF.

The Issuer

The Issuer was incorporated in the Cayman Islands on 18 May 2007 as an exempted company with limited liability with registered number MC-187772. The registered office of the Issuer is at c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its telephone number is +44 (0) 118 373 8000.

The Issuer is a wholly-owned direct subsidiary of TWUCFH. Its authorised share capital is US$50,000 divided into 50,000 shares of a nominal or par value of US$1 each and it has an issued share capital of US$1. The Issuer has no subsidiaries.

Directors of the Issuer

The Directors of the Issuer are Andrew Beaumont and Stuart Ledger.

Andrew Beaumont was appointed a director of the Issuer in June 2007, and was appointed a director of TWUF in May 2006. He is the Head of Treasury for the Thames Water Group, and as such is responsible for the central treasury functions of the Thames Water Group. He is a member of the Association of Corporate Treasurers, and has extensive experience as a corporate treasurer. He is also responsible for the insurance arrangements of the Thames Water Group and is a director of Thames Water Group's captive insurance company, Isis Insurance Company Limited.

Stuart Ledger was appointed a director of the Issuer in November 2008 and was appointed a director of TWUF in September 2008. He is the Group Financial Controller for Thames Water Group. He is a member of the Chartered Institute of Management Accountants.

There are no potential conflicts of interest between any duties to the Issuer of its directors and their respective private interests or duties.

The business address of the Directors of the Issuer is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB.

The Activities of the Issuer

The Issuer has no employees nor does it own any physical assets. Administration and treasury functions are conducted on its behalf by TWUL. It is intended to conduct all future financing activities (save for Finance Lease arrangements, certain hedging arrangements to be entered into by TWUL and/or TWUF and the DSR Liquidity Facilities to be entered into by TWUF) for the TWU Financing Group through the Issuer. The Issuer issued Bonds under the Programme on the Initial Issue Date and has continued to issue Bonds thereafter. On the Initial Issue Date, the Issuer entered into (and in the case of (i), (ii) and (iii) will from time to time review): (i) the Initial DSR Liquidity Facility Agreement; (ii) the Initial O&M Reserve Facility Agreement; (iii) the Initial Credit Facility Agreement; and (iv) certain other documents in connection with the Programme. The Issuer may also enter into Hedging Agreements from time to time in accordance with the Hedging Policy. See Chapter 7 "*Overview of the Financing Agreements*".

The Auditors of the Issuer are KPMG Audit Plc, which is a member firm of the Institute of Chartered Accountants in England and Wales.

TWUF

TWUF was incorporated in England and Wales on 12 July 1989 as a limited company with registered number 2403744 and re-registered as a public limited company on 26 March 1990. TWUF was then re-registered as a private limited company on 4 June 2007.

TWUF is a wholly-owned subsidiary of TWUL. Its authorised share capital is £50,000 divided into 50,000 ordinary shares of £1 each. The shares have all been issued and are partly paid up in the amount of £0.25 per share. TWUF has no other equity or debt capital, save for as disclosed in the section "*The Activities of TWUF*" below.

The registered office of TWUF is at Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB and its telephone number is +44 (0) 118 373 8000.

There are no potential conflicts of interest between any duties to TWUF of its directors or company secretary and their respective private interests or duties.

Directors and Company Secretary of TWUF

The directors of TWUF are Andrew Beaumont and Stuart Ledger and their principal activities are described in "*Directors of the Issuer*" above.

The business address of the directors of TWUF is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB.

The Company Secretary of TWUF is Joel Hanson.

The Activities of TWUF

TWUF has not engaged in any activities other than those incidental to its formation and the authorisation of the issue of the TWUF Bonds. TWUF has no subsidiaries. TWUF may enter into Hedging Agreements in accordance with the Hedging Policy and has entered into (and will from time

to time review) DSR Liquidity Facilities, the proceeds of which will be on-lent by TWUF to TWUL pursuant to the TWUF/TWUL Loan Agreements.

The Activities of TWUF are restricted in the CTA. See Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

The Auditors of TWUF are KPMG Audit Plc, which is a member firm of the Institute of Chartered Accountants in England and Wales.

TWH

TWH was incorporated in England and Wales on 30 March 2007 as a limited liability company with registered number 6195202.

TWH is a wholly-owned direct subsidiary of the Parent. Its authorised share capital is £100 divided into 100 ordinary shares of £1 each. Two ordinary shares have been issued to the Parent and are fully paid-up.

The registered office of TWH is at Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB and its telephone number is +44 (0) 118 373 8000.

There are no potential conflicts of interest between any duties to TWH of its directors, company secretary or assistant company secretary and their respective private interests or duties.

Directors and Company Secretaries of TWH

The directors of TWH are Sir Peter Mason KBE, Edward Beckley, Rosamund Blomfield-Smith, Christopher Deacon, Peter Dyer, Roderick Gadsby, Gordon Parsons, Antonio Santos, Dipesh Shah, Martin Stanley, Robert Verrion, Kieren Boesenberg (as alternate to Rosamund Blomfield-Smith), Manuel Guerreiro (as alternate to Antonio Santos), Ross Israel (as alternate to Christopher Deacon), Stan Kolenc (as alternate to Robert Verrion) and Lincoln Webb (as alternate to Dipesh Shah). Their principal activities are set out in "*TWUL*" under "*Directors of TWUL and Corporate Governance*" above, with the exception of Peter Dyer and Roderick Gadsby.

Peter Dyer was appointed a director of TWH in June 2007. He is a director of the Macquarie European Infrastructure Plc and has extensive experience in both infrastructure and engineering projects. As a director of Trafalgar House Corporate Development Limited, he was responsible for the development of its UK-based road projects, including the Birmingham Northern Relief Road and the A1-M1 shadow toll road. Before joining Trafalgar House Corporate Development Limited, he worked for Imperial Chemical Industries plc.

Roderick Gadsby was appointed a director of TWH in June 2010. He is Managing Director, Macquarie Capital Funds which he joined in 2008 and he has responsibility for the debt financing and capital planning of Maquaries' European investments. He is also a director of Wales and West Utilities Limited. Before joining Macquarie, he held executive positions in Barclays Capital and Morgan Stanley, gaining a broad experience of corporate securitisation and infrastructure finance.

The business address of the directors of TWH is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB.

The Company Secretary and Assistant Company Secretary of TWH are, respectively, Joel Hanson and Gillian Sarson.

The Activities of TWH

TWH has no employees nor does it own any physical assets other than its shares in TWUL. Administration and treasury functions are conducted on its behalf by TWUL.

The principal activity of TWH is to hold the shares of TWUL and to enter into documents incidental to the Programme. TWH has no direct subsidiaries other than TWUL.

The activities of TWH are restricted in the CTA. See Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

The Auditors of TWH are KPMG Audit Plc, which is a member firm of the Institute of Chartered Accountants in England and Wales.

TWUCFH

TWUCFH was incorporated in the Cayman Islands on 3 October 2007 as an exempted company with limited liability with registered number MC-196364. The registered office of TWUCFH is at c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its telephone number is +44 (0) 118 373 8000.

TWUCFH is a wholly-owned direct subsidiary of TWUL. Its authorised share capital is US$50,000 divided into 50,000 shares of a nominal or par value of US$1 each. On its date of incorporation, TWUCFH had an issued share capital of one share of a nominal or par value of US$1 and on 15 October 2007 it issued one additional share of a nominal or par value of US$1 to TWUL as consideration for the purchase by TWUCFH of the issued share capital of the Issuer.

The principal activity of TWUCFH is to hold the shares of the Issuer and to enter into documents incidental to the Programme.

TWUCFH has no direct subsidiaries other than the Issuer.

There are no potential conflicts of interest between any duties to TWUCFH of its directors or company secretary and their respective private interests or duties.

Directors of TWUCFH

The directors of TWUCFH are Andrew Beaumont and Stuart Ledger and their principal activities are described in "*Directors of the Issuer*" above.

The business address of the directors of TWUCFH is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB.

The Activities of TWUCFH

TWUCFH has no employees nor does it own any physical assets other than its shares in the Issuer. Administration and treasury functions are conducted on its behalf by TWUL.

The activities of TWUCFH are restricted in the CTA. See Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

The Auditors of TWUCFH are KPMG Audit Plc, which is a member firm of the Institute of Chartered Accountants in England and Wales.

CHAPTER 6
REGULATION OF THE WATER AND WASTEWATER INDUSTRY IN ENGLAND AND WALES

Water and Wastewater Regulation Generally

Background

The current structure of the water and sewerage industry in England and Wales dates from 1989, when the Water Act 1989 was enacted. The industry is now made up of 10 water and sewerage companies and 12 water only companies which are Regulated Companies. There are also currently 5 other regulated undertakers, who have been appointed under the inset regime to supply certain small sites within England and Wales. The provisions of the Water Act 1989 are now contained mainly in the consolidating WIA which itself has been substantially amended by the Water Industry Act 1999, the Water Act and to a lesser extent various other statutory provisions. References in this section to statutes are to the WIA unless otherwise stated.

Regulatory Framework

The activities of Regulated Companies are principally regulated by the provisions (as amended) of the WIA and the regulations made under this Act and the conditions of their licences (also referred to as 'Instruments of Appointment'). Under the WIA, the Secretary of State has a duty to ensure that at all times there is an appointee for every area of England and Wales. Appointments may be made by the Secretary of State or in accordance with a general authorisation given by Ofwat.

Ofwat are the economic regulator for water and sewerage and Ofwat are responsible for, *inter alia*, setting limits on charges and monitoring and enforcing licence obligations. Regulated Companies are required by their licences to make an annual return to Ofwat (including accounts and financial information) to enable Ofwat to assess their activities and affairs. The two principal quality regulators are the DWI (the DWI is appointed by the Secretary of State) and the EA. The DWI's principal task is to ensure that Regulated Companies in England and Wales are fulfilling their statutory requirements under the WIA and the Water Quality Regulations for the supply of wholesome drinking water. The DWI is part of Defra and acts as a technical assessor on behalf of the Secretary of State in respect of the quality of drinking water supplies. It carries out technical audits of each water undertaker; this includes an assessment (based on information supplied by the company) of the quality of water in each water supply zone, arrangements for sampling and analysis, and progress made on achieving compliance with regulatory and EU requirements. The EA took over responsibility for managing water resources, investigating and regulating pollution, flood controls and land drainage from the National Rivers Authority in April 1996. Its duties include the regulation of abstractions from, and discharges to, controlled waters. Controlled waters include coastal waters, territorial waters extending three miles from shore, inland freshwaters and groundwater.

The description given in this document relates to the structure and regulations that apply in England. Although the structure of the water and sewerage industry is the same in Wales, slightly different regulations sometimes apply. There are different structures and different regulatory frameworks for water and sewerage services in the remainder of the United Kingdom (Scotland and Northern Ireland).

Ofwat and the Secretary of State

As provided for in the Water Act, the DGWS was replaced by the WSRA as from 1 April 2006 but it continues to be referred to as Ofwat. The WSRA is a body corporate comprising a chairman, a chief executive, three executive and five non-executive directors. The present Chairman of Ofwat is Philip Fletcher, who was appointed in January 2006 for a period of five years and whose term is due to expire on 31 December 2011. Philip Fletcher was previously the DGWS, to which post he was appointed in 2000. Ofwat have taken over all functions and duties previously performed by the DGWS with some additions made by the Water Act.

Each of the Secretary of State and Ofwat have a primary duty under the WIA to exercise and perform their powers and duties under the WIA in the manner they consider best calculated to:

(a) further the consumer objective;

(b) secure that the functions of Regulated Companies are properly carried out throughout England and Wales;

(c) secure that Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions; and

(d) secure that the activities authorised by the licence of a licensed water supplier (see the section "The Water Act" below) and any statutory functions imposed on it are properly carried out.

The consumer objective is to protect the interests of consumers, wherever appropriate, by promoting competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services. For the purpose of the consumer objective, the "interests of consumers" requires Ofwat to take into account the interests of all consumers. However, Ofwat must have regard in particular to consumers who are disabled or chronically sick, of pensionable age, with low incomes or residing in rural areas as well as customers of Regulated Companies whose premises are not eligible to be supplied by a licensed water supplier (see the section "*The Water Act*" below). In addition, the Secretary of State and Ofwat have the power, in exercising any function in relation to water and sewerage services, to have regard to any interests of consumers of gas, electricity and telecommunications services that are affected by the carrying out of that function.

Subject to these primary duties, each of the Secretary of State and Ofwat are required to exercise and perform their powers and duties in the manner they considers best calculated to:

(a) promote economy and efficiency on the part of Regulated Companies;

(b) secure that there is no undue preference or discrimination in the fixing of charges;

(c) protect the interests of customers of Regulated Companies (and companies connected with them) in respect of non-regulated activities in particular by ensuring that (i) transactions are carried out at arm's length, and (ii) in relation to their regulated business, Regulated Companies maintain and present accounts in a suitable form and manner;

(d) protect the interests of customers in connection with the benefits that could be secured for them by the application of the proceeds of disposal by Regulated Companies of Protected Land; and

(e) contribute to the achievement of sustainable development.

There is also a power for the Secretary of State to issue statutory guidance to Ofwat concerning how Ofwat might contribute to social and environmental policies. There is also a duty on Defra to encourage water conservation and on all public authorities, as defined, to take into account, where relevant, the desirability of conserving water supplied or to be supplied to premises. Also, section 48 of the Water Act provides enforcement authorities (the Secretary of State, the National Assembly for Wales and Ofwat) with powers to impose civil financial penalties on statutory undertakers and licensed water suppliers for certain breaches and contraventions. Ofwat has recently undertaken a series of reviews as part of their "future regulation" programme. This covered areas such as future price limits and water charging, water rights trading and upstream market arrangements, accounting separation and retail markets and sustainable drainage.

On 21 January 2011, the OFT and Ofwat announced a study to examine the "advanced treatment of organic waste". The study, due to conclude and report in July 2011, is likely to result in recommendations for changes to the current economic and environmental regulatory framework for the treatment and disposal of sludge. TWUL has engaged with the OFT during its information gathering phase and a full written submission was sent by TWUL to the OFT in May 2011.

Licences

General

Under the WIA, each Regulated Company holds a licence and is regulated through the conditions of such licence as well as the WIA. Each licence specifies the geographic area served by the company and imposes a number of conditions on the licence holder that relate to limits on charges, information reporting requirements, various codes of practice, and other matters. In addition to the conditions regulating price limits (see the section "*Economic Regulation*" below), each licence also contains conditions regulating infrastructure charges and the making of charges schemes, and imposes prohibitions on undue discrimination and undue preference in charging. Other matters covered by conditions in each licence include: accounts and the provision of accounting information; codes of practice for customers on disconnection and on leakage; levels of service and service targets; "ring-fencing" of assets and restrictions on disposal of land; asset management plans; the provision of information to Ofwat; provision of combined and wholesale water supplies; and payments to customers for supply interruptions because of drought. Further details of TWUL's Licence are provided in Chapter 5 "*Description of the TWU Financing Group*" under "*Ring-fencing and the TWU Financing Group*", including an overview of the Licence modifications Ofwat introduced into TWUL's Licence on 8 November 2007. Ofwat are responsible for monitoring compliance with the Licence Conditions and, where necessary, enforcing compliance through procedures laid down in the WIA. See the section "*Enforcement Powers*" below.

The Water Act introduced new forms of licences that are required to be held by new entrants on the water supply side of the industry engaged in common carriage or retail activities (see the section "*The Water Act*" below).

Termination of a Licence

There are certain circumstances provided for in the WIA under which a Regulated Company could cease to hold a licence for all or part of its area:

(a) a Regulated Company could consent to the making of a replacement appointment or variation, which changes its appointed area, in which case Ofwat have the authority to appoint a new licence holder;

(b) under condition O of a licence, where the Secretary of State has given the Regulated Company at least 25 years' notice and that period of notice has expired;

(c) under the provisions of the Special Administration regime, the Special Administrator may transfer the business and licence to a successor (see the section "*Special Administration Orders*" below); or

(d) by the granting of an "inset" appointment over part of a Regulated Company's existing appointed area to another Regulated Company (see below).

Before making an appointment or variation replacing a Regulated Company, Ofwat or the Secretary of State must consider any representations or objections made. Where the Secretary of State or Ofwat make such an appointment or variation, in determining what provision should be made for the fixing of charges by the new Regulated Company, it is the duty of the Secretary of State or Ofwat to ensure, so far as may be consistent with their duties under the WIA, that the interests of the members and creditors of the existing Regulated Company are not unfairly prejudiced as regards the terms on which the new Regulated Company could accept transfers of property, rights and liabilities from the existing Regulated Company.

An inset appointment can be granted to a company seeking to provide water and/or sewerage services on an unserved site, or in respect of a site with water and/or sewerage services within an existing Regulated Company's area where 50 Ml of water are supplied or likely to be supplied to particular premises in any 12-month period or where the incumbent Regulated Company consents to the variation. The inset mechanism continues alongside the regime for licensing new entrants under the Water Act. On 28 February 2011, Ofwat published new guidelines on 'inset appointments' and bulk

supply pricing (i.e. the prices that existing appointees, such as TWUL, charge to inset appointees for bulk supplies of water and sewerage discharge). The new 'inset appointment' guidelines are based on a considerably broader interpretation of the relevant provisions of the WIA than had been expressed in Ofwat's 1999 guidelines (supplemented in 2008) on this topic. The broader interpretation stems in part from a decision of the High Court on 30 November 2010, dismissing a judicial review brought by TWUL of an inset appointment by Ofwat at a site in Kings Cross, London (that decision has been appealed by TWUL, and is due to be heard by the Court of Appeal in October 2011). New entrants have been able to apply for a water supply licence (see the section "*Water Act*" below) since 1 December 2005. To date, eight new entrants (including Aquavitae) have sought and been granted water supply licences. On 20 June 2008, Ofwat issued a notice revoking the water licence of Aquavitae, following Aquavitae going into administration. Watercall also had its licence revoked in January 2011. The water supply licensing regime is described in more detail in the section "*The Water Act*" below. The Government announced an expansion of the market in February 2011 by proposing a reduction in the threshold consumption required for eligibility to switch supplier from 50Ml per annum to 5Ml per annum (for further information please see the section in Chapter 4 entitled "*Competition in the water industry*").

Modification of a Licence

Conditions of a licence may be modified in accordance with the procedures laid down in the WIA. Subject to a power of veto by the Secretary of State of certain proposed modifications, Ofwat may modify the conditions in a licence with the consent of the Regulated Company concerned. Before making the modifications, Ofwat must publish the proposed modifications as part of a consultation process, giving third parties the opportunity to make representations and objections which Ofwat must consider. In the absence of consent, the only means by which Ofwat can secure a modification is following a modification reference to the Competition Commission (although it is also possible for primary legislation to confer on Ofwat the power to modify the licences of a Regulated Company (although this has only to date occurred in relation to Condition R & S)). A modification reference may also be required in the event of a direction from the Secretary of State to the effect that, *inter alia*, in his view, the modifications should only be made, if at all, following a reference to the Competition Commission.

A modification reference requires the Competition Commission to investigate and report on whether matters specified in the reference operate, or may be expected to operate, against the public interest and, if so, whether the adverse public interest effect of those matters could be remedied or prevented by modification of the conditions of the licence. In determining whether any particular matter operates or may be expected to operate against the public interest, the Competition Commission is to have regard to the matters in relation to which duties are imposed on the Secretary of State and Ofwat.

If there is an adverse finding, the Competition Commission's report will state whether any adverse effects on the public interest could be remedied or prevented by modification of the licence. If the Competition Commission so concludes, Ofwat must then make such modifications to the licence as appear to them (Ofwat) necessary to remedy or prevent the adverse effects specified in the report whilst having regard to the modifications specified therein and after giving due notice and consideration to any representations and objections.

If it appears to the Competition Commission that the proposed modifications are not requisite for the purpose of remedying or preventing the adverse effects specified in its report, the Competition Commission has the power to substitute its own modifications which are requisite for the purpose.

In April 2009, Defra put forward the Flood and Water Management Bill containing a proposal to introduce a new way of modifying the Licence Conditions whereby Ofwat could make changes to all standard conditions of appointment of Regulated Companies where a certain proportion of the companies (to be specified in an order) agreed to the change. Although these provisions were not ultimately included in the FWMA, the previous Government signalled its intention to bring forward new legislation for these provisions at a later date. The current Government has thus far not commented on this point.

Under the Water Act, Ofwat were also given power to modify the conditions of the licence insofar as they considered it necessary to do so to facilitate the new water supply licensing arrangements (see the

section "*The Water Act*" below), but this power could only be exercised within the first two years of the coming into force of the new provisions. That period has expired. Conditions R and S were introduced using this power following consultation with Regulated Companies and came into effect on 15 September 2005 (modifications to Condition R came into effect on 1 September 2007).

The Competition Commission (and the Secretary of State in certain circumstances) also has, among others, the power to modify the conditions of the licence after an investigation under its merger or market investigation powers under the Enterprise Act if it is concluded that matters investigated in relation to water or sewerage services broadly were anti-competitive or, in certain circumstances, against the public interest.

Ofwat have enacted a change to TWUL's Licence Condition N as at 30 March 2011 which took effect from 1 April 2011. The change was agreed to by TWUL.

Condition N requires TWUL to make certain payments to cover, amongst other things, the normal running costs of Ofwat and the CCW. The modification to Condition N introduces a new and separate requirement for TWUL to pay the costs that Ofwat incur in relation to the Tideway Tunnel Project and related works as a separate cost. TWUL is required to make payments on 1 April of each year and, if requested by Ofwat, 1 January, in respect of the costs estimated by Ofwat as likely to be reasonably incurred by them, or as already reasonably incurred, in respect of the Thames Tunnel Project and related works. The amounts to be paid will be determined by Ofwat, after consulting TWUL. Ofwat have agreed with TWUL that TWUL will not be required to make payments totalling more than £10 million during the life of the Tideway Tunnel Project unless an increased limit is agreed between the parties.

The requirement for TWUL to make these additional payments under Condition N will be subject to a time limit of seven years beginning 1 April 2011 unless TWUL agree to a longer period. The costs associated with making these payments (which has been agreed between TWUL and Ofwat) will be recoverable through the project funding.

Water Supply

Each Regulated Company which is a water undertaker has a general duty as such to develop and maintain an efficient and economical system of water supply and to make arrangements in relation to the provision of water supplies within its appointed area. It also has specific supply duties, including a duty to comply with a water main requisition provided certain conditions are met, duties to supply water for domestic purposes to premises within the appointed area which are connected to a water main and to connect new premises to a water main. These duties must be carried out, so far as reasonably possible, with the aim of furthering the conservation and enhancement of natural beauty and the conservation of flora, fauna and physical features of special interest, and of maintaining freedom of access to places of natural beauty, buildings, sites and objects of archaeological, architectural and historic interest and providing access and recreation to the public. In addition, it may be required in very limited certain circumstances to connect premises outside its appointed area to one of its water mains and to supply water to those premises. Each Regulated Company is under a duty to promote the efficient use of water by its customers.

Water supplied for domestic purposes or food production purposes must be wholesome at the time of supply, which entails compliance with the Water Quality Regulations. Where standards are not being met, the Secretary of State, or where appropriate, the DWI is under a duty to take enforcement action against the supplier. However, Regulated Companies may submit undertakings or apply for an authorised departure to the Secretary of State detailing steps designed to secure or facilitate compliance with those standards. The Secretary of State is not required to take enforcement action for breaches of the Water Quality Regulations if satisfied with the undertakings, or if satisfied that the breaches are of a trivial nature, or if general duties preclude taking enforcement action. The Secretary of State has stated that, except in certain very limited circumstances, it is unlikely that enforcement action will be taken against Regulated Companies which are complying with the terms of their undertakings.

Water undertakers are required to submit a report of any risk assessment or review of a treatment works or supply system to the Secretary of State in accordance with the report requirements set out in

regulation 28 of the Water Supply (Water Quality) Regulations 2000 (Amendment) Regulations 2007. The Secretary of State may serve a regulation 28 enforcement notice in respect of treatment works identified to be at significant risk of supplying water that would constitute a potential danger to human health, to direct the water undertaker to maintain, review, audit or revise its risk mitigation measures. It also has the power to issue a prohibition notice to prevent the supply of water from a specified treatment works completely, or to prevent supply unless certain conditions are met. In addition, TWUL may be prosecuted and fined if it fails to disinfect water adequately or to design or continuously operate an adequate treatment process under the 2007 amendments to the Water Quality Regulations. The Water Supply (Water Quality) Regulations 2000 (Amendment) Regulations 2007 also introduced new criminal offences for failing to disinfect water adequately or failing to continuously operate an adequate water treatment process. Under the WIA, it is a criminal offence for a Regulated Company to supply water which is unfit for human consumption.

Sewerage Services

Each regulated sewerage undertaker has a general duty as such to provide, improve, extend and maintain a system of public sewers capable of draining its region effectively, and to make provision for the emptying of sewers and for dealing effectively with their contents. It also has specific sewerage duties, including a duty to comply with a sewer requisition provided certain conditions are met, a duty to provide sewers otherwise than by requisition, and a duty to permit private drains and sewers to be connected to its public sewers.

It is a criminal offence for a person to carry out a "water discharge activity" (such as to cause or knowingly permit any poisonous, noxious or polluting matter, or trade or sewage effluent to enter controlled waters (including most rivers and other inland and coastal waters)) other than in accordance with the terms of an Environmental Permit (discharge consent). The principal prosecuting body is the EA, although third parties also have a right of prosecution.

The terms of the Environmental Permits depend largely on the size and location of the discharge and when the consents were granted. Within the scope of its powers and duties under the Environmental Permitting Regulations 2010 ("**EPR**"), the EA has discretion as to the terms on which environmental permits are granted or existing permits are altered. New European Directives (that are transposed into UK Law) are one of the primary reasons existing permits are altered. The transfer, processing and disposal of sewage sludge from sewage treatment works is also regulated by the EA.

Service Standards

Ofwat first introduced the overall performance assessment ("**OPA**") in 1999. The OPA score is calculated each year and provides a comparative overview of company performance. It covers measures of water supply, sewerage service, customer service and environmental performance.

The OPA provides an incentive to companies to maintain services and, where necessary, to improve. The OPA scores from the years 2004-05 through to 2008-09 were used to adjust the price limits proposed in the 2009 Draft Determination, and Ofwat proposed an adjustment of TWUL's revenue of -0.2 per cent. based on its performance in comparison with other water companies on the OPA.

On 7 August 2009, Ofwat published a consultation document entitled "Service incentive mechanism - a consultation on moving forward from the overall performance assessment", which proposed the use of a new performance assessment called the service incentive mechanism ("**SIM**") during AMP5. On 31st March 2010, Ofwat published their overall approach in their document '*Challenging monopoly water companies to improve*'. The SIM is designed to focus on the quality of customer service and the customer experience of contact with companies. The SIM replaces the previous Overall Performance Assessment (OPA) measure from AMP4.

Ofwat began to measure SIM from 1 April 2010, when new price limits took effect, although the results from 2010-11 will not be used to derive financial incentives. This is to allow sufficient time to ensure comparisons are robust. Companies will still be required to report on OPA measures, at least in the short-term to assess customer service.

Ofwat also make annual assessments of the serviceability of Regulated Companies' water and wastewater assets on the basis of data submitted in companies' annual returns. Ofwat consider four asset categories (water infrastructure, water non-infrastructure, sewerage infrastructure and sewerage non-infrastructure) and assesses each against key performance measures to assess annually whether each category is "improving", "stable", "marginal" or "deteriorating".

Under the WIA (as amended by the Water Act), Regulated Companies have been required from 1 October 2004 to disclose as soon as reasonably practicable after the end of each financial year whether or not they link the remuneration of their directors to standards of performance attained and to give details of how any links affect remuneration.

Ofwat have announced a streamlining of regulatory reporting and, from the 2011 June Return, each Regulated Company is no longer required to provide Ofwat with a detailed commentary. TWUL expects that the format of the June Return will be revised again for the 2012 reporting cycle, to what is hoped will be a significantly shorter format which will reduce the administrative burden on TWUL. The change in the format of the June Return does not change TWUL's obligations to deliver the detailed outputs Ofwat have funded through the 2009 Final Determination.

Enforcement Powers

The general duties of Regulated Companies as water or sewerage undertakers are enforceable by the Secretary of State or Ofwat or both. The conditions of the licence (and other duties) are enforceable by Ofwat alone, whilst other duties, including those relating to water quality, are enforceable by the DWI. Further duties, such as those in respect of water abstractions and discharges to the environment, are enforceable by the EA.

Where the Secretary of State or Ofwat are satisfied that a Regulated Company is contravening, or has contravened and is likely to do so again, or is likely to contravene, a condition of its licence or a relevant statutory or other requirement, either the Secretary of State or Ofwat (whichever is the appropriate enforcement authority) must make a final enforcement order to secure compliance with that condition or requirement, save that, where it appears to the Secretary of State or Ofwat that it would be more appropriate to make a provisional enforcement order, that party may do so. In determining whether a provisional enforcement order should be made, the Secretary of State or Ofwat shall have regard to the extent to which any person is likely to sustain loss or damage as a consequence of such breach before a final enforcement order is made. The Secretary of State or Ofwat will confirm a provisional enforcement order if satisfied that the provision made by the order is needed to ensure compliance with the condition or requirement that has been breached. There are exemptions from the Secretary of State's and Ofwat's duty to make an enforcement order or to confirm a provisional enforcement order:

(a) where the contraventions were, or the apprehended contraventions are, of a trivial nature;

(b) where the company has given, and is complying with, a Section 19 Undertaking to secure or facilitate compliance with the condition or requirement in question; or

(c) where duties in the WIA preclude the making or confirmation of the order Section 19 Undertakings create obligations that are capable of direct enforcement under section 18 of the WIA. Accordingly, the main implication of a Regulated Company assuming such an undertaking is that any future breach of the specific commitments contained in the undertaking is enforceable in its own right (without the need for further grounding on general statutory or licence provisions).

The Water Act also conferred powers on Ofwat or the Secretary of State to impose financial penalties on Regulated Companies and the licensees introduced by the Water Act. Ofwat and the Secretary of State have the power to fine such a company up to 10 per cent. of its turnover in the preceding 12 months if it has failed or is continuing to fail to comply with its licence conditions, standards of performance or other obligations. Under the Water Act, a penalty can only be imposed in relation to a past contravention of licence conditions or failure to meet statutory obligations where the contravention or failure occurred within the 12 months preceding the issuing of either (i) a notice under section 203(2) of the WIA requiring the Regulated Company to provide information in relation to the

contravention or failure, or (ii) a notice under section 22A(4) of the WIA indicating the amount of the proposed penalty and the circumstances giving rise to a penalty.

In 2007, Ofwat imposed a fine of £8.5 million on United Utilities for non-compliant trading arrangements with associate companies in breach of condition F of its licence. In February 2008, Ofwat fined Southern Water a total of £20.3 million for breaching Condition J and/or M of its licence in respect of regulatory reporting. In April 2008, Ofwat imposed a fine on Severn Trent Water of 3 per cent. of its turnover (£35.8 million) for breaching the same conditions of its licence. In that same month, it also imposed a fine on TWUL of 0.7 per cent. of its turnover (£9.7 million), again for breaching Condition J and/or N of its licence. In October 2008, Ofwat fined Tendring Hundred £42,000 for breaching condition M of its licence by submitting unreliable, inaccurate and incomplete information to Ofwat.

In June 2010 Ofwat queried the evidence which TWUL had provided to Ofwat supporting the claimed outputs within TWUL's AMP4 Sewer Flooding programme. Ofwat wrote to TWUL in February 2011 setting out their issues and in accordance with the guidelines on regulatory performance of Regulated Companies, stated that TWUL could face a shortfall in capex of between £50-£100 million if evidence supporting the outputs was not made available by TWUL to Ofwat.

Further to the letter TWUL received in February 2011, TWUL received a notice from Ofwat on 9 June 2011 pursuant to Section 203 of the WIA. The notice requires TWUL to produce specific documents and furnish specific information to Ofwat by Friday 8 July 2011 (subject to any agreed extensions between Ofwat and TWUL).

The Section 203 notice has been issued by Ofwat as they are concerned that TWUL may have contravened Conditions J and/or M of its Licence by misreporting the information it has provided to Ofwat in its 2010 June Return, in particular, information in relation to properties at high risk of internal flooding and the outputs relating to reducing the risk of sewer flooding during AMP4.

Ofwat has made it clear that the service upon TWUL of the Section 203 notice does not imply that they will automatically pursue formal enforcement action against TWUL. TWUL will continue to co-operate with Ofwat on the issues raised in the notice and will fully comply with the terms of the notice, in so far as it is able to do so.

The Water Act also provides for situations where a new licensee has caused or contributed to a breach of a Regulated Company's licence or caused or contributed to a Regulated Company contravening a statutory or other requirement, or where a Regulated Company has caused or contributed to the breach of a new licensee's licence or caused or contributed to the breach of the latter's statutory or other requirements. In those cases, Ofwat may impose an appropriate remedy. A Regulated Company may appeal a penalty order to the High Court (the "**Court**"), although the grounds of appeal are limited. The Court may cancel or reduce the penalty or extend the time-scale to pay. The requirement to pay the penalty is suspended until the case is determined. A financial penalty may not be imposed under this provision for an infringement if it would be more appropriate to proceed under the Competition Act.

Special Administration Orders

The WIA contains provisions enabling the Secretary of State, or Ofwat with the consent of the Secretary of State, to secure the general continuity of water supply and sewerage services. In certain specified circumstances, the Court may, on the application of the Secretary of State or, with his consent, Ofwat, make a Special Administration Order in relation to a Regulated Company and appoint a Special Administrator. These circumstances include:

(a) where there has been, or is likely to be, a breach by a Regulated Company of its principal duties to supply water or provide sewerage services or of a final or confirmed provisional enforcement order and, in either case, the breach is serious enough to make it inappropriate for the Regulated Company to continue to hold its licence;

(b) where the Regulated Company is, or is likely to be, unable to pay its debts;

(c) where, in a case in which the Secretary of State has certified that it would be appropriate, but for section 25 of the WIA, for him to petition for the winding-up of the Regulated Company under section 124A of the Insolvency Act, it would be just and equitable, as mentioned in that section, for the Regulated Company to be wound up if it did not hold a licence; and

(d) where the Regulated Company is unable or unwilling to adequately participate in arrangements certified by the Secretary of State or Ofwat to be necessary by reason of, or in connection with, the appointment of a new Regulated Company upon termination or variation of the existing Regulated Company's licence.

In addition, on an application being made to Court, whether by the Regulated Company itself or by its directors, creditors or contributories, for the compulsory winding-up of the Regulated Company, the Court would not be entitled to make a winding-up order. However, if satisfied that it would be appropriate to make such an order if the Regulated Company were not a company holding a licence, the Court shall instead make a Special Administration Order.

During the period beginning with the presentation of the petition for Special Administration and ending with the making of a Special Administration Order or the dismissal of the petition (the "**Special Administration Petition Period**"), the Regulated Company may not be wound up, no steps may be taken to enforce any security except with the leave of the Court and, subject to such terms as the Court may impose, no other proceedings or other legal process may be commenced or continued against the Regulated Company or its property except with the leave of the Court.

Once a Special Administration Order has been made, any petition presented for the winding-up of the company will be dismissed and any receiver appointed, removed. Whilst a Special Administration Order is in force, those restrictions imposed during the Special Administration Petition Period continue with some modification: an administrative receiver can no longer be appointed (with or without the leave of the Court) and, in the case of certain actions which require the Court's leave, the consent of the Special Administrator is acceptable in its place. See the section "*Restrictions on the Enforcement of Security*" below.

A Special Administrator has extensive powers similar to those of an administrator under the Insolvency Act, but with certain important differences. He is appointed for the purposes of transferring to one or more different Regulated Companies as a going concern, so much of the business of the Regulated Company as is necessary to ensure the proper carrying out of its water supply or sewerage functions as the case may be and, pending the transfer, of carrying out those functions. Where a company is in special administration as a result of an order made on the grounds that the company is or is likely to be unable to pay its debts, the special administrator is appointed for the purpose of rescuing the company as a going concern, and the transfer purpose applies only if the special administrator thinks that it is not likely to be possible to rescue the company as a going concern, or that transfer is likely to secure more effective performance of the company's functions. During the period of the order, the Regulated Company is managed for the achievement of the purposes of the order and in a manner which protects the respective interests of members and creditors. However, the effect of other provisions of the WIA is ultimately to subordinate members' and creditors' rights to the achievement of the purposes of the Special Administration Order.

Were a Special Administration Order to be made, it is for the Special Administrator to agree the terms of the transfer on behalf of the existing appointee, subject to the provisions of the WIA. The Transfer Scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's licence (with modifications as set out in the Transfer Scheme) to the new Regulated Company(ies). A transfer can also be effected through a hive-down process, by transferring all or part of the company's undertaking to a wholly-owned subsidiary of the company, and then transferring securities in the subsidiary to another company. The powers of a Special Administrator include, as part of a Transfer Scheme, the ability to make modifications to the licence of the existing Regulated Company, subject to the approval of the Secretary of State or Ofwat, as well as the power to exercise any right the Regulated Company may have to seek a review by Ofwat of the Regulated Company's charges pursuant to an IDOK or a Substantial Effects Clause. To take effect, the Transfer Scheme must be approved by the Secretary of State or Ofwat. In addition, the Secretary of State and

Ofwat may modify a Transfer Scheme before approving it or at any time afterwards with the consent of the Special Administrator and each new Regulated Company.

The WIA also grants the Secretary of State, with the approval of the Treasury, the power: (i) to make appropriate grants or loans to achieve the purposes of the Special Administration Order and to indemnify the Special Administrator against losses or damages sustained in connection with the carrying out of his functions; and (ii) to guarantee the payment of principal or interest and the discharge of any other financial obligations in connection with any borrowings of the Regulated Company subject to a Special Administration Order.

Protected Land

Under the WIA, there is a prohibition on Regulated Companies disposing of any of their Protected Land except with the specific consent of, or in accordance with a general authorisation given by, the Secretary of State. A consent or authorisation may be given on such conditions as the Secretary of State considers appropriate. For the purpose of these provisions, disposal includes the creation of any interest (including leases, licences, mortgages, easements and wayleaves) in or any right over land, and includes the creation of a charge. All land disposals are reported to Ofwat in the June Return.

Protected Land comprises any land, or any interest or right in or over any land, which:

(a) was transferred to a water and sewerage company (under the provisions of the Water Act 1989) on 1 September 1989, or was held by a water only company at any time during the financial year 1989/90;

(b) is, or has at any time on or after 1 September 1989, been held by a company for purposes connected with the carrying out of its regulated water or sewerage functions; or

(c) has been transferred to a company in accordance with a scheme under Schedule 2 to the WIA from another company, in relation to which the land was Protected Land when the transferring company held an appointment as a water or sewerage undertaker.

Unless a specific consent is obtained from the Secretary of State, all disposals of Protected Land must comply with Condition K of the licences of Regulated Companies. This condition seeks to ensure (i) that, in disposing of Protected Land, the Regulated Company retains sufficient rights and assets to enable a Special Administrator to manage the business, affairs and property of the Regulated Company so that the purposes of the Special Administration Order can be achieved and (ii) that the best price is received from such disposals so as to secure benefits to customers (where such proceeds were not taken into account when price limits were set, they are shared equally as between customers and shareholders). To this end there are certain procedures for and restrictions on the disposal of Protected Land and special rules apply to disposals by auction or formal tender and to disposals to certain associated companies. These include a restriction on the disposal (except with the consent of Ofwat) of Protected Land required for carrying out the Appointed Business. In addition, Ofwat can impose conditions on disposals of Protected Land including conditions relating to the manner in which the proceeds of a sale are to be used.

Given the purposes of the WIA (in particular, the purposes of the Special Administration regime and the restrictions on enforcement of security thereunder) and of Condition K of its licence, a Regulated Company would not expect to obtain the consent of the Secretary of State or Ofwat to the creation of any security over its Protected Land.

Security

Restrictions on the Granting of Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, the WIA restricts a Regulated Company's ability to dispose of Protected Land in this way (as explained in the section "*Protected Land*" above). Accordingly, a licence restricts a Regulated Company's ability to create a charge or mortgage over Protected Land.

In addition, provisions in a Regulated Company's licence require the Regulated Company at all times:

(a) to ensure, so far as is reasonably practicable, that if a Special Administration Order were made in respect of it, it would have sufficient rights and assets (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purpose of such an order could be achieved; and

(b) to act in the manner best calculated to ensure that it has adequate: (a) financial resources and facilities; and (b) management resources, to enable it to carry out its regulated activities.

These provisions further limit the ability of a Regulated Company to grant security over its assets, in particular assets required for carrying out the Appointed Business, and limit in practice the ability to enforce such security.

Restrictions on the Enforcement of Security

Under the WIA, the enforcement of security given by a Regulated Company in respect of its assets is prohibited unless the person enforcing the security has first given 14 days' notice to both the Secretary of State and Ofwat. If a petition for Special Administration has been presented leave of the Court is required before such security is enforceable or any administrative receiver can be appointed (or, if an administrative receiver has been appointed between the expiry of the required notice period and presentation of the petition, before the administrative receiver can continue to carry out his functions). These restrictions continue once a Special Administration Order is in force with some modification (see the section "*Special Administration Orders*" above).

Once a Special Administrator has been appointed, he would have the power, without requiring the Court's consent, to deal with property charged pursuant to a floating charge as if it were not so charged. When such property is disposed of under this power, the proceeds of the disposal would, however, be treated as if subject to a floating charge which had the same priority as that afforded by the original floating charge.

A disposal by the Special Administrator of any property secured by a fixed charge given by the Regulated Company could be made only under an order of the Court unless the creditor in respect of whom such security is granted otherwise agreed to such disposal. Such an order could be made if, following an application by the Special Administrator, the Court was satisfied that the disposal would be likely to promote one or more of the purposes for which the order was made (although the Special Administrator is subject to the general duty to manage the company in a manner which protects the respective interests of the creditors and members of the Regulated Company). Upon such disposal, the proceeds to which that creditor would be entitled would be determined by reference to the "best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order" as opposed to an amount not less than "open market value" which would apply in a conventional administration for a non-Regulated Company under the Insolvency Act.

Within three months of the making of a Special Administration Order or such longer period as the Court may allow, the Special Administrator must send a copy of his proposals for achieving the purposes of the order to, *inter alios*, the Secretary of State, Ofwat and the creditors of the company. The creditors' approval of the Special Administrator's proposal is not required at any specially convened meeting (unlike in the conduct of a conventional administration under the Insolvency Act). The interests of creditors and members in a Special Administration are still capable of being protected since they have the right to apply to the Court if they consider that their interests are being prejudiced. Such an application may be made by the creditors or members by petition for an order on a number of grounds, including either: (i) that the Regulated Company's affairs, business and property are being or have been managed by the Special Administrator in a manner which is unfairly prejudicial to the interests of its creditors or members; or (ii) that any actual or proposed act of the Special Administrator is or would be so prejudicial. Except as mentioned below, the Court may make such order as it thinks fit, and any order made by the Court may include an order to require the Special Administrator to refrain from doing or continuing an act about which there has been a complaint. The exception referred to above is that the Court may not make an order which would prejudice or prevent the achievement of the purposes of the Special Administration Order.

Enforcement of Security over Shares in Regulated Companies

Under the WIA, the enforcement of security over, and the subsequent sale of, directly or indirectly, the shares in a Regulated Company would not be subject to the restrictions described above in relation to the security over a Regulated Company's business and assets. Notwithstanding this, given Ofwat's general duties under the WIA to exercise and perform their powers and duties, *inter alia*, to ensure that the functions of a Regulated Company are properly carried out, the expectation is that any intended enforcement either directly or indirectly of security over, and subsequently any planned disposal of, the shares in a Regulated Company to a third party purchaser would require consultation with Ofwat. In addition, depending on the circumstances, the merger control provisions referred to in the section "*Merger Regime*" below could apply in respect of any such disposal.

Economic Regulation

General

Economic regulation of the water industry in England and Wales is based on a system of five-year price caps (determined by the Periodic Reviews) imposed on the amounts Regulated Companies can charge to their customers. This is intended to reward companies for efficiency and quality of service to customers. The system was intended generally to allow companies to retain for a period any savings attributable to efficiency, thus creating incentives to make such gains.

In June 2010, Ofwat launched a comprehensive review of the price setting process, as part of a future price limits project. It is expected that they will publish a framework document setting out for consultation their aims for price limits in 2014-15 and beyond, and the framework and principles they propose to use in setting them, in early 2012.

K Price Limitation Formula

The main instrument of economic regulation is the price limits set out in the conditions of the licences. These limit increases in a basket of standard charges made by Regulated Companies for water supply and sewerage services. The weighted average charges increase is limited to the sum of the percentage movement in the RPI plus K, a company specific adjustment factor. The size of a Regulated Company's K factor (which can be positive, negative or zero) reflects the scale of its capital investment programme, its cost of capital as determined by Ofwat and its operational and environmental obligations, together with Ofwat's judgment as to the scope for it to improve its efficiency. As such, it may be a different number in different years.

Regulatory Capital Value

Under the methodology developed by Ofwat, the regulatory capital value of Regulated Companies is a critical parameter underlying price limits set at Periodic Reviews, being the value of the capital base of the relevant Regulated Company for the purposes of calculating the return on capital element of the determination of K. The value of the regulatory capital value to investors and lenders is protected against inflation by adjusting the value each year by RPI. In addition, Ofwat's projections of regulatory capital value take account of the assumed net capital expenditure in each year of a Periodic Review Period. For these purposes, Ofwat make an assumption regarding the relationship between movements in RPI and movements in COPI. At the 2009 Periodic Review, TWUL's RCV was adjusted by, amongst other things, substituting the actual movement in COPI for that assumed in 2004.

Price Control

A small number of mainly large consumption non-domestic customers are charged in accordance either with individual "special" arrangements, or with standard charges which do not fall within the scope of the tariff basket. These include charges for bulk supplies and charges in respect of infrastructure provision and, where these are not in accordance with standard charges, charges for non-domestic supplies of water and the reception, treatment and disposal of trade effluent. Charges for bulk supplies of water are usually determined on an individual basis, as are charges for some larger non-domestic water supplies and some trade effluent. The charging basis for bulk supplies in some cases provides for annual recalculation by reference to the expenditure associated with the supply. In April 2010, Ofwat

set out their policy on tariff issues and the approach to be taken in assessing and approving Regulated Companies' charges schemes, including their expectation that customers' bills should broadly reflect the cost of the service provided.

Periodic Reviews of K

K factors are currently determined by Periodic Review every five years. Ofwat published the Final Determination of future water and sewerage charges for the 2009 Periodic Review on 26 November 2009 and these came into effect on 1 April 2010. The industry average annual K factor for AMP5 is 0.5 per cent. TWUL's average K factor is 1.4 per cent per annum.

Interim Determinations of K

Condition B of a Regulated Company's licence provides for Ofwat to determine in certain circumstances whether, and if so how, K should be changed between Periodic Reviews. The procedure for IDOK can be initiated either by the Regulated Company or by Ofwat. An application for an IDOK may be made in respect of a Notified Item, a Relevant Change of Circumstance or where there has been a substantial adverse or favourable effect on the delivery of regulatory outputs.

A Notified Item is any item formally notified by Ofwat to the Regulated Company as not having been allowed for (either in full or at all) in K, **provided that** there has been no Periodic Review subsequent to that notification. Notified Items put forward by Ofwat in the determination of price limits for the Regulated Companies in the AMP5 Period are:

(a) increases in household bad debt and debt management costs resulting from worsening economic conditions in the company's operating area;

(b) increases in the environmental improvement unit charge component of abstraction charges above the retail price index to cover the compensation costs associated with the Environment Agency's Restoring Sustainable Abstraction programme;

(c) increased costs necessary to balance water supply and demand based on companies' application of Defra's UK climate projections ("**UKCP09**") data and appropriate analytical tools and processes;

(d) costs associated with the impact of the introduction of permit schemes made pursuant to the Traffic Management Act; and

(e) acquisition of land associated with the Tideway Tunnel Project (TWUL Notified Item only).

A "Relevant Change of Circumstances" ("**Relevant Change of Circumstances**") is defined in the licence of each Regulated Company. The following costs are also expected to qualify for Relevant Change of Circumstances:

(a) Competition, where costs arise from the change in companies' legal requirements;

(b) the adoption of private sewers;

(c) work related to the implementation of the Water Framework Directive; and

(d) the UWWTD legacy.

An IDOK takes account of the costs, receipts and savings to be included in the computation of K which are reasonably attributable to the Notified Items or the Relevant Changes of Circumstance in question and are not recoverable by charges outside the K price limitation formula. The amount and timing of the costs, receipts and savings must be appropriate and reasonable for the Regulated Company in all the circumstances and they must exclude trivial amounts, any costs which would have been avoided by prudent management action, any savings achieved by management action over and above those which would have been achieved by prudent management action, and any amounts previously allowed for in

determining K. These costs are then netted off against the receipts and savings to determine the annual cash flows thereof for each year included in the period over which the costs are to be measured ("**Base Cash Flows**").

The conditions of the licences also specify a triviality and materiality threshold which must be reached before any adjustment can be made. In relation to certain licences, the triviality threshold requires each notified item to equal at least 2% of service turnover based on a 15 year net present value basis. The materiality threshold is reached where the sum of the net present values of (i) Base Cash Flows consisting of operating expenditure and/or loss of revenue calculated over 15 years and (ii) other Base Cash Flows calculated over the period to the next Periodic Review, is equal to at least 10 per cent. of the latest reported service turnover attributable to the Regulated Company's water and sewerage business. An adjustment to K (which may be up or down) is then calculated on the basis of a formula broadly designed to enable the Regulated Company to recover the additional allowable costs incurred or to be incurred during the period until the start of the first charging year to which the next Periodic Review applies and attributable to the identified Base Cash Flows. The change is then made for the remainder of the period up to the start of that first charging year. Condition B of the licence sets out in detail the step-by-step methodology which Ofwat are required to apply.

In addition, under the Substantial Effects Clause in the licence of a Regulated Company, the Regulated Company or Ofwat are permitted to request price limits to be reset if its Appointed Business either: (i) suffers a substantial adverse effect which could not have been avoided by prudent management action; or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action. For this purpose, the financial impact is calculated in the same way as for the materiality threshold above except that the 10 per cent. threshold is replaced by a 20 per cent. threshold. Since Ofwat's open letter of 31 January 2001 to the Managing Directors of Regulated Companies offering to reinsert the clause in their licences, several other Regulated Companies have accepted the proposed inclusion of a Substantial Effects Clause in their licences and Ofwat have modified their licences accordingly. TWUL has a Substantial Effects Clause in its Licence.

References to the Competition Commission

If Ofwat fail within specified periods to make a determination at a Periodic Review or in respect of an IDOK or if the Regulated Company disputes its determination, the Regulated Company may require Ofwat to refer the matter to the Competition Commission for determination by it after making an investigation. The Competition Commission must make its determination in accordance with any regulations made by the Secretary of State and with the principles which apply, by virtue of the WIA, in relation to determinations made by Ofwat. The decisions of the Competition Commission are binding on Ofwat. Bristol Water was the only company in the most recent Periodic Review to refer their Final Determination to the Competition Commission.

Capital Expenditure Incentive Scheme

Ofwat have also introduced a new incentive mechanism for capital expenditure - the CIS. Under the CIS, Regulated Companies recover their actual capital expenditure for specific outputs, plus or minus revenue rewards or penalties that depend on how closely their expenditure forecasts compare to their actual expenditure.

The CIS allows for symmetric treatment of capital expenditure over-spends and under-spends subject to the rules of Ofwat's methodology. This means that if a Regulated Company chooses to spend more than Ofwat's expenditure forecast, any over-spends of capital expenditure will be reflected in the RCV of the business following the next Periodic Review, but this will also result in lower outperformance incentives and reduced returns within the price limit period (in line with the CIS rewards/penalties structure).

Other Restrictions on Charging

Under the WIA, Regulated Companies must charge for water supplied, or sewerage services provided, to dwellings in accordance with a charges scheme which cannot take effect unless approved by Ofwat and must comply with any requirements prescribed by the Secretary of State by regulations. Regulated

Companies are prohibited from disconnecting dwellings and certain other premises for non-payment of charges for water supply.

The Water Industry White Paper

The Government has committed to publishing the White Paper during 2011 which will focus on the future challenges facing the water industry including maintaining water supplies, keeping bills affordable and reducing regulation.

The White Paper is likely to include proposals for the reform of the overall structure of the water industry which may include legal separation of the wholesale and retail functions of the Regulated Company's businesses. If these proposals are included in the White Paper and these are enacted as law, this is likely to have a significant adverse affect on TWUL's business, results of operations, profitability and/or TWUL's financial condition.

The Government commented in September 2010 that the White Paper would also examine the conclusions of the Martin Cave's review of Competition and Innovation in the Water Industry and Anna Walker's review of charging for Household Water and Sewerage Services. The White Paper will reflect the Government's conclusions on the outcome of the Gray Review of Ofwat and CCW.

TWUL understands that the White Paper is to be broken down into the following sections:

(a) Securing water resources for the future;

(b) Increasing choice and competitive opportunities, driving innovation, improving customer service and value;

(c) Creating a modern regulatory system that protects customers and minimises regulatory burdens;

(d) Ensuring fair and affordable water charges; and

(e) Incentivising water conservation.

The White Paper is planned for publication in December 2011 although it is uncertain as at the date hereof whether this timescale will be met. In December 2010, the House of Commons Environment, Food and Rural Affairs Select Committee recommended that the Government set out how its timetable for introducing necessary statutory provisions will enable key amendments to be in place in time to allow a smooth transition to the next AMP Period which is due to begin in 2015.

The Gray Review of Ofwat

David Gray commenced an internal review of Ofwat and CCW (the "**Gray Review**") in August 2010 and this reported to the Secretary of State at the end of March 2011. The final findings of the review may not be made public before the publication of the White Paper. The review is undertaking a "health check" of Ofwat, their role, governance and relationships with other stakeholders in the water industry. The review will also assess CCW and recommend where its role should sit in future.

Alongside the Gray Review, Ofwat are independently reviewing how it regulates the water industry. Ofwat published their high level findings in April 2011 with a detailed consultation on the proposed changes to due to take place in the autumn of 2011. Ofwat's objectives are for their regulatory approach to ensure that:

(a) the best use is made of all resources;

(b) investment (by the water companies) takes place at the right time; and

(c) the water companies are encouraged to understand their customer's wants and needs.

The Walker Review of charging for household water and sewerage services

In February 2008, Defra launched an independent review of charging for household water and sewerage services ("**Walker Review**"). The Walker Review examined the current system of charging households for water and sewerage services in response to the more acute pressure on supply and demand, a greater awareness of wider environmental impacts and the increasing concerns about fairness and affordability in the existing system. It considered social, economic and environmental concerns and made recommendations, including changes to current legislation and guidance. The final report was published in December 2009. It set out findings and seventy recommendations, including the following key areas:

1. Costs and Charging

(a) The EA and Ofwat should continue to work on methods of valuing water in a way that reflects its full future value.

(b) The basis of water charges should continue to move away from the current system of a mixture of rateable value and volume consumed, towards a system based on volume consumed only. The speed at which this can be achieved depends on the costs of metering and the affordability of such a transition.

(c) The Government should consider transferring existing highway drainage charges from sewerage customers to local highway authorities.

2. **Metering**

(a) Ofwat should be asked to lead on the delivery of metering, publishing a progress report every two years.

(b) Ofwat should develop an agreed methodology for assessing the costs and benefits of metering, incorporating the wider benefits identified by the Walker Review team, including taking into account the full value of water.

(c) The UK government should set an objective for metering penetration to reach 80 per cent. in England by 2020.

3. Affordability

(a) Low-income metered households in receipt of certain means-tested benefits and tax credits should be eligible for a 20 per cent. discount on their volumetric bill.

(b) In the absence of a wider scheme to help low-income customers, a volumetric discount tariff should be offered to metered and assessed-charge customers in receipt of means-tested benefits and tax credits and with one or more children. Households should receive a discount equivalent to 50 litres per child per day.

(c) Government should consult further once they have taken the decision on who should pay for affordability measures.

(d) Ofwat should track the affordability problems facing the water industry and should then take the appropriate action and/or provide advice to the UK Government, to ensure that water and sewerage services remain affordable over both the medium and longer term. Ofwat should report on the position on affordability in an annual report on affordability and debt.

(e) Walker also raised a particular concern regarding high bills in the south west of England and offered a number of solutions that could be implemented to address this. One suggestion was that a national cross-subsidy could be introduced whereby other areas have higher bills to subsidise the south west of England.

4. Debt

(a) As a priority, the WIA should be amended to provide for a named customer and clarify who is responsible for paying the water bill; the 'liable person' should be the property owner unless they discharge their liability to the water company by providing tenancy information correctly and in a timely manner.

(b) The UK Government should consider whether, in the future, companies should be legally able to pursue debts owed to them by customers through the magistrates' courts.

(c) Ofwat should consider removing bad debt as a notified item at the next Periodic Review.

(d) Ofwat should continue to approve social tariffs that encourage the payment of debt and therefore advantageous to all.

Points 4(a) and 4(d) above were addressed in the FWMA.

On 5 April 2011, Defra announced a consultation regarding the introduction of new arrangements for charging households for water and sewerage services, including:

(a) Enhancing the WaterSure scheme, which helps vulnerable households who pay for their water via a water meter, by capping their bills at the level of the average bill for their water company. Under the new plans, bills would be capped at the national average metered bill if this is lower than the company's average, with the cost met by the Government; and

(b) Guidance to companies to introduce social tariffs, to provide extra help for those struggling to pay their bills by providing guidance for water companies on the design of tariffs, including which households should benefit, what level of cross-subsidy between households is fair and what concessions should be offered.

Final details of these proposals are expected in the White Paper.

Drinking Water and Environmental Regulation

EU Law Generally

The activities of Regulated Companies are affected by the requirements of EU directives. EU directives apply to all countries in the European Union and provide a common framework for stewardship of the environment and social considerations. The European Court of Justice (the "**ECJ**") has held that European Union law has priority over national law. EU directives are known as secondary law. They are binding as to the results to be achieved, but the means of implementation and transposition into national laws are a matter for each EU member state. Once a directive is passed by the European Parliament and the Council of Ministers, each country has a set period in which to transpose the directive into their country's legal system. This stage is necessary to allow time to align relevant laws within each member state with the European directive. For example, in England the European Communities Act 1972 allows ministers to incorporate EU directives into English law by means of statutory instruments.

Principal EU directives relating to such activities which are currently in force or are proposed are detailed below. It should be noted that some of the EU directives that outline standards for the aquatic environment and, therefore, affect Regulated Companies have cyclical review cycles, usually of four to six years. The application and interpretation of these EU directives by the EA and Defra also remain under review. Investment consequences for Regulated Companies of either EU-wide or UK-focused reviews are taken into account in the Periodic Review process.

The investment consequences for AMP5 of the directives listed below were discussed and agreed with the EA, and outlined in the final business plan submitted to Ofwat as part of the 2010-15 Periodic Review process.

Water Framework Directive

Directive 2000/60/EC establishing a framework for community action in the field of water policy ("**Water Framework Directive**") was adopted in 2000. It is intended to rationalise existing EU water legislation in order to provide a framework for the protection and improvement of ground, inland and coastal waters and to promote sustainable water consumption. The Water Framework Directive was transposed into English and Welsh law by the Water Environment (Water Framework Directive) (England and Wales) Regulations 2003 which came into force on 2 January 2004. The Water Framework Directive is set out over three 'six year' cycles, the first of which commenced in December 2009 with the publication of plans which include lists of measures that Regulated Companies and other parties will need to undertake to achieve the objectives of the Water Framework Directive. A small tranche of measures specific to the Water Framework Directive have been agreed with the EA through the Periodic Review process for 2010-15, although there remains a very small risk of additional, unfunded, investment requirements in this period. It is expected to have a significant impact on Regulated Companies in the longer term, particularly after 2015. For example, it may result in increased limitations on abstraction licences and a restriction on discharge consents, which could cause Regulated Companies to incur material expenditure. To comply with the Water Framework Directive, Member States will have to ensure all their waters achieve at least "good status" by 2015, or set out alternative standards and/or a timetable for the achievement of these by no later than 2027.

It is noteworthy that many of the investments driven by the Water Framework Directive will also increase the energy requirements and hence, by implication, the level of carbon emissions of Regulated Companies. Targets set by the government in this regard will need to be addressed by other means, which may result in additional costs.

Groundwater Directive

Directive (2006/118/EC) (the "**Groundwater Directive**") was adopted in December 2006 as the first "daughter" directive to the Water Framework Directive providing further detail on how the objectives of the Water Framework Directive are to be achieved with respect to groundwater. Under the Groundwater Directive, Member States are required to monitor and assess groundwater quality on the basis of common criteria and to identify and reverse trends in groundwater pollution. If groundwater quality is improved, Regulated Companies may benefit from reduced costs in cleaning abstracted water. However, there is also a possibility that Regulated Companies may have to bear part of the costs of complying with this Directive.

The Environmental Permitting (England and Wales) Regulations 2010 (the "**Environmental Permitting Regulations**") implement Article 6 of the Groundwater Directive. Proposals put forward by the Government under the Environmental Permitting Regulations may generate compliance costs to meet the requirements to protect, enhance and restore groundwater bodies and to reverse any significant upward trends of pollutants.

Improvements at 12 sewage treatment works to protect and improve groundwater were agreed with the EA to take place during the current AMP Period, with the funding for doing so being provide in the 2009 Final Determination. The upgrades at the sewage treatments works is timetabled for completion in the third, fourth and fifth year of the current AMP Period.

A specific concern for companies relates to the prohibition, or otherwise, of discharges to groundwater that contain 'list I' or 'list II' substances, now defined as 'hazardous substances' and 'non-hazardous pollutants', respectively under the Environmental Permitting Regulations. This will require the cessation of the discharge to groundwater and the attendant pump-away costs for treatment and discharge to surface waters, however, in enforcing the Environmental Permitting Regulations, the Environment Agency may exempt some discharges. Specifically, this includes those discharges that would result in, (a) a pollutant input so small as to obviate any danger to groundwater, or (b) an input that can not be prevented or limited for technical reasons without increasing risk to human health or to the environmental or without using disproportionately costly measures. Furthermore, it was the view of Defra that the impact of the proposed amendments on Regulated Companies should be minimal and the overall costs should be expected to be neutral.

Priority Substance Directive

On 17 June 2008, the European Parliament and Council reached agreement on the text for Directive 2008/105/EC (the "**Priority Substance Directive**"), the second "daughter" directive to the Water Framework Directive providing further detail on how the objectives of the Water Framework Directive are to be achieved with respect to environmental quality standards for water. The Priority Substance Directive entered into force on 13 January 2009 and was transposed into UK law through a revision to directions to the EA on the Water Framework Directive standards (ISBN 978-0-85521-192-9). The Priority Substance Directive replaces five existing directives, and sets harmonised water quality standards for 'priority' substances (those which are most harmful to the aquatic environment, such as mercury), and so establishes the requirements for achievement of "good chemical status", being one element of "good status". A programme of investigation, primarily monitoring, of the prevalence and fate of 'priority' substances in sewerage and sewage treatment has been agreed with the EA and is currently underway and will complete in December 2012. This investigation will inform what, if any, material investment could follow in AMP6 to ensure compliance with the Water Framework Directive and will identify the best means of ensuring such compliance.

Urban Waste Water Treatment Directive

The Urban Waste Water Treatment Directive (91/271/EEC) ("**UWWTD**") relates to the collection, treatment and discharge of urban wastewater. The UWWTD lays down minimum requirements for the collection and treatment of municipal wastewater and sets expectations of beneficial use for the disposal of sewage sludge which arise from the treatment process. Historically, all of the collecting systems in the UK have been compliant with the UWWTD and that, with a few exceptions, the treatment requirements have also been satisfied.

However, it should also be noted that the European Commission has commenced further infraction proceedings against the UK, alleging that it has failed to fully implement the UWWTD correctly with respect to the frequency and volume of overflows from sewer networks in London and Whitburn. The UK's position for making improvements is based on assessing the environmental impact of overflows, however the Commission believes a more prescriptive limit to overflows is required to meet the aims of the UWWTD. Judgement is expected in 2012/13. If the UK is found guilty, this may result in a maximum limit of allowable spills per year which will affect future sewerage designs and may be applied retrospectively to many of TWUL's overflows. The majority of central London's sewerage network is currently non-compliant with this interpretation although the London Tideway Tunnels Project is intended to resolve this problem.

Any additional expenditure is expected to qualify as a Relevant Change in Circumstances. The UWWTD has been transposed into UK legislation by the Urban Waste Water Treatment Regulations 1994 (as amended) as further described below (see section "Discharge into Controlled Waters" below).

Drinking Water Quality Directive

The EU's Directive on the Quality of Water intended for Human Consumption (98/83/EC) (the "**Drinking Water Directive**") sets standards for water intended for drinking, food preparation or other domestic purposes and has been implemented by the Water Quality Regulations, which came fully into force on 1 January 2004. The Water Quality Regulations were amended in 2007 introducing the requirement for wider catchment risk assessments and a Drinking Water Safety Plan ("**DWSP**") approach to safeguarding the quality of drinking water supplies. It is anticipated that a DWSP approach will be incorporated into a future revision of the EU Directive. The Water Quality Regulations were further amended in 2010 in order to ensure they fully transposed some detailed aspects of the Directive.

Currently there are no plans to revise the Drinking Water Directive however in accordance with the current Directive there will be a change to the amount of lead permitted in drinking water at the end of 2013. The UK Regulations already take account of this change and TWUL has been preparing for the change since 2000. Lead in drinking water is primarily derived from lead pipes that connect some older properties to water mains. Water treatment processes have been modified at 50 of TWUL's water treatment works in order to reduce the amount of lead picked up from lead pipe work. As part of TWUL's investment programme for AMP5 further treatment is planned at 5 water treatment works.

TWUL is planning to undertake the replacement of approximately 35,000 lead communication pipes in areas at greatest risk of exceeding the new lead standard during the current AMP Period.

Habitats and Birds Directives

Directive 92/43/EEC on the conservation of natural habitats and wild flora and fauna ("**Habitats Directive**") and Directive 2009/147/EC on the conservation of wild birds ("**Birds Directive**") establish a network of areas protected by designation across Europe called "Natura 2000". These seek to protect endangered habitats and/or species classified as Special Protection Areas ("**SPAs**") under the Birds Directive and Special Areas of Conservation ("**SACs**") under the Habitats Directive. These directives are implemented in the UK by the Conservation of Habitats and Species Regulations 2010. Once a site is designated, Member States must take steps to avoid the deterioration of habitats and disturbance of species. This has involved a review of any existing abstraction discharge consents that are likely to impact upon a protected area. Regulated Companies are likely to have sites located within or adjacent to SPAs or SACs, which could materially affect operations and the ability to abstract water in or adjacent to such designated areas. This risk is significantly increased by the effects of climate change, such as the increasing risk of drought. The designation of SPAs and SACs may also negatively impact upon a Regulated Company's plans for future sites or operations, for example by limiting the ability to expand operational sites or restricting capital or operational activity.

Environmental Liability Directive

A European Directive (2004/35/EEC) on "environmental liability with regard to the prevention and remedying of environmental damage"(the "**Environmental Liability Directive**") was implemented in the UK by the Environmental Damage (Prevention and Remediation) Regulations 2009. The Environmental Liability Directive aims to prevent and remedy environmental damage, including water pollution, damage to biodiversity and land contamination which causes serious harm to human health. Under the Environmental Liability Directive, operators responsible for certain prescribed activities which cause environmental damage would, subject to certain defences, be held strictly liable for restoring the damage caused or made to pay for the restoration. Liability under the Environmental Liability Directive is not retrospective, but may capture any damage caused by TWUL's operations to the environment and biodiversity that goes beyond damage already covered by existing statutory regimes.

Strategic Environmental Assessment Directive

Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the Environment ("**SEA Directive**") states that its objective is "to provide for a high level of protection of the environment and to contribute to the integration of environmental considerations into the preparation and adoption of plans and programmes with a view to promoting sustainable development". As such, the SEA does not provide an appraisal of the specific environmental effects of individual projects, which may require subsequent Environmental Impact Assessment through a separate EU Environmental Impact Assessment Directive and UK Environmental Impact Assessment Regulations.

The SEA Directive has been implemented in England by the Environmental Assessment of Plans and Programmes Regulations 2004, which came into force on 20 July 2004. It requires an "environmental assessment" of certain plans and programmes. While there is no definitive list of plans that must be subject to strategic environmental assessment, in the UK it has been applied to the production of land use plans, transport plans and TWUL also carried out a strategic environmental assessment of its Water Resource Management Plan in 2009. The SEA Directive defines "environmental assessment" as a procedure comprising:

(a) preparing an environmental report on the likely significant effects of the draft plan or programme;

(b) carrying out consultation on the draft plan or programme and the accompanying environmental report;

(c) taking into account the environmental report and the results of consultation in decision making; and

(d) providing information when the plan or programme is adopted and showing how the results of the environmental assessment have been taken into account.

Water Resources Management Plans may fall within the scope of the SEA Directive if their preparation began on or after 21 July 2004. This means that affected Regulated Companies may have to prepare a report on the likely significant environmental effects of their plans, consult statutory consultees identified in the SEA Regulations and the public, and take the report and the results of the consultation into account during the plan preparation process and before the plan is adopted. In the absence of firm guidance, TWUL has undertaken a Strategic Environmental Assessment on its draft Water Resources Management Plan and produced an Environmental Report in conjunction with the draft plan. In addition a Habitat Regulation Assessment (as defined in the Habitat Directive) screening report was produced to accompany the revised draft Water Resources Management Plan. TWUL are required to submit a revised drought plan to Defra in the autumn of 2011. In advance of submitting this, TWUL will conduct an SEA scoping assessment which will determine whether a full SEA assessment will be required.

Please also refer to the sections on Water Resources Planning, Planning and Environmental Impact Assessment in Chapter 6.

Industrial Emissions Directive (consolidates the Integrated Pollution Prevention and Control Directive and the Waste Incineration Directive)

The Industrial Emissions Directive (2010/75/EU) (the "**IED**") represents the coming together of seven existing directives including, *inter alia*, the Integrated Pollution Prevention and Control Directive (the "**IPPC**"), the Large Combustion Plants Directive and the Waste Incineration Directive, into one piece of legislation. On 8 November 2010, the European Council ratified the proposed Directive and the directive (2010/75/EU) came into force on 6 January 2011.

Defra, in conjunction with the Environment Agency, will be launching a consultation exercise on draft regulations early in 2012. To receive a permit to operate, installations covered by the IED must apply best available techniques ("**BAT**") to optimise their all-round environmental performance. The requirements will be implemented through the Environmental Permitting regime in England and Wales.

The IED also introduces new obligations including the requirement for sewage treatment works biologically treating more than 75 tonnes per day of non-hazardous waste for recovery to be regulated (Paragraph 5.3 of Annex I). This could result in most of TWUL's sewage treatment centres treating sludge for recovery on agricultural land being subject to the IED. The key issue for the water industry is how the addition of the phrase "and excluding activities covered by the Council Directive 91/271/EEC of 21 May 1991 concerning urban waste water treatment" will be interpreted in the UK. This has already been subject to considerable debate in UK courts when the original Directive was transposed and implemented.

Waste Framework Directive

Directive 2008/98/EC (the "**Waste Framework Directive**") requires that anyone who treats, keeps, deposits or disposes of waste must do so in accordance with a waste management licence from the regulatory authority (unless exempt or excluded). A key objective of the waste management system is to ensure that waste is recovered or disposed of without endangering human health and without using processes or methods which harm the environment. In England, the EA is responsible for issuing and ensuring compliance with conditions in waste management licences. These are now issued as environmental permits under the Environmental Permitting regime (see the section entitled "*Environmental Permitting*" below for further details on the amalgamation of Pollution Prevention and Control and Waste Management Licensing regimes under the Environmental Permitting Regulations). The Waste Management (England) Regulations 2011 set out how the Waste Framework Directive will be implemented and the new requirements for demonstrating that waste operations adhere to the Waste Hierarchy (as defined in the Waste Framework Directive), which prioritises waste minimisation, reuse, recycling and recovery over waste disposal.

Industrial Emissions Directive and H4 Odour Guidance

As stated above, the IED was published in January 2011. The key addition to previous legislation is Annex 1 Para 5.3 (b) which includes 'treatment for recovery' which potentially expands the requirements of IPPC to include all the Company's anaerobic digestion installations and composting operations with associated costs and additional obligations. Consequently, all 37 sludge treatment centres could require a bespoke environmental permit under the Environmental Permitting Regulations.

The H4 odour guidance to accompany Environmental Permitting Regulations was published on 1 April 2011. This includes a 1.5 Odour Unit standard for some odours and implies both potential new obligations for sites under IED as well as revising Odour Management Plans for existing sites with bespoke environmental permits under Environmental Permitting Regulations to achieve a more stringent standard.

The combined impact of improvement conditions and odour abatement to implement this could exceed £20 million in a given year.

TWUL is actively involved in an UKWIR project to assess the exact costs, implications and implementation of the IED, and is engaged with Defra who have 2 years from January 2011 to transpose the IED into domestic legislation. TWUL's view is that the IED would be a disproportionate regulatory tool to regulate those activities carried out on sites whose primary purpose is to meet the requirements of the Urban Wastewater Treatment Directive. However, if the IED proceeds into domestic legislation as expected, these additional obligations would likely impact TWUL during the 2013/14 financial year and would mean that TWUL incur unfunded costs within the current AMP period. The adoption of the stringent odour standard in H4 guidance implies that additional investment will be expected irrespective of IED implementation where TWUL have existing permits at waste-related sites EPR sites.

Sewage Sludge Directive

Recycling treated sludge to agricultural land as a fertiliser and soil conditioner is the main outlet for this material. Current controls of this activity are based on the Sewage Sludge Directive (86/278/EEC) (as amended) (the "**Sludge Directive**"). Among other things, the Sludge Directive sets out limits for concentrations of heavy metals and specifies rules for the sampling and analysis of sludges and soils. The European Commission is currently considering proposals to amend the Sludge Directive. There may be some tightening of metals and organic limits, in addition to following the UK approach to pathogen standards. However, the use of treated sludge in agriculture is recognised as important by the Commission and it has a stated objective "to increase the quantity of sludge that is used on land in a sustainable manner."

United Kingdom Law Generally

The water industry is subject to numerous regulatory requirements concerning human health and safety and the protection of the environment.

Abstraction Licensing

Under the WRA, water abstractions must be carried out in accordance with a licence granted by the EA. It is a criminal offence to abstract water without a licence or in breach of the conditions of an abstraction licence (unless the abstraction falls within certain exceptions set out in the WRA). The maximum penalty is an unlimited fine. The Water Act amended the abstraction licensing system in England and Wales to ensure the sustainable use of water. The EA may revoke abstraction licences in the interests of environmental protection where a licence has not been used for four years. No compensation would be available for any loss suffered as a consequence of any such amendment or revocation. Existing abstraction licences may be revoked or varied where the Secretary of State believes that revocation or variation is necessary to protect any waters or underground strata, or any flora and fauna dependent on them, from serious damage and from 15 July 2012 such variations and revocations can be made without compensation being payable. The Water Act also includes a provision requiring all new abstraction licences to be time-limited (and the Government has previously indicated that it expects most existing licences to be converted to a time-limited basis over time) and a provision

creating a new right for third parties to claim damages against an abstractor for loss or damage due to water abstraction. Any new licence with a duration of more than 12 years must contain a "curtailment condition" which allows the EA to give the licence holder six years' notice of the abstraction licence being reduced to a lower authorised quantity without compensation being paid.

Changes to the charges levied by the EA in connection with abstraction licences for 2008-2009 became effective from 1 April 2008, arising from compensation payments for environmental improvements under the Restoring Sustainable Abstraction programme. Ofwat have recognised that the new charging scheme has the potential to increase charges to Regulated Companies and are considering proposals that some of the increase in charges will be recoverable from customers.

In April 2001, the EA launched the Catchment Abstraction Management Strategies ("**CAMS**") process which is a part of the Government's plans to reform water resources licensing. For the purposes of managing water resources, the EA has divided England and Wales into catchment areas and has formulated a local strategy for each catchment area based upon sustainable use of water resources. The strategy gives details of the water resource availability in the catchment area and informs the EA's abstraction licensing policies for that area. CAMS are also the vehicle for reviewing time-limited abstraction licences and determining whether and on what terms they should be renewed.

If an abstraction licence potentially affects a site designated under the Conservation (Natural Habitats &c.) Regulations 1994 (as amended), the licence must be reviewed in accordance with those Regulations, a process called "appropriate assessment". The EA has reviewed all licences including abstraction licences for this purpose in a process known as the "Review of Consents". The EA Thames region has identified two high priority sites: the Thames basin heaths in Surrey and Burnham Beeches in Buckinghamshire. The investigation into the impact of TWUL's abstractions on the high priority sites has confirmed in each case that either (i) TWUL has no abstraction sites in the area; or (ii) the "appropriate assessment" has confirmed that the licences are approved and no action is required. Two sites have been identified for which TWUL is required to implement measures:

(a) Kennet and Lambourn Floodplain Special Area of Conservation, where TWUL is required to implement a scheme to reduce abstraction at its Speen Groundwater source in Newbury; and

(b) Thatcham Reedbeds Special Area of Conservation, where TWUL is required to implement a scheme to mitigate the potential impact of abstraction under the West Berkshire Groundwater Scheme, which is a strategic drought scheme operated by the EA.

In respect of each of these sites, TWUL included the required scheme, as outlined in the EA's National Environment Programme, in the Final Business Plan and it was approved by Ofwat in the 2009 Final Determination. The modification or revocation of abstraction licences allows for compensation to be paid, where the modification is not required as a result of the application of the Habitats Directive, which is recoverable through increased abstraction licence charges, as described above.

On 22 April 2009, the final report of Professor Cave's review of competition and innovation in water markets was published. In that report, Professor Cave made recommendations to the government to reform the abstraction licence/discharge consent regimes (see the section "*Competition in the water industry - General*" below).

On 29 April 2009, Defra published its consultation paper on proposals for implementing the remaining abstraction provisions of the Water Act as they relate to the transitional provisions for: the application for, and determination of, abstraction licences to bring previously exempt abstractions under license control; the revocation of orders made under section 33 of the WRA which currently provide exemptions from the restrictions on abstractions in certain areas; and the promotion of exemptions for certain categories of abstraction or impounding works.

The DWI can take enforcement action in the event that a Regulated Company is in contravention of regulatory requirements concerning the "wholesomeness" of water supplies. Court proceedings can be brought by the DWI in the name of the Chief Inspector of Drinking Water for the offence of supplying water "unfit for human consumption", for example if discoloured or foul tasting water is supplied to customers. Under the Water Supply (Water Quality) Regulations 2000 (Amendment) Regulations

2007, the DWI can also prosecute water undertakers for failing to disinfect water supplies or for failing to operate an adequate treatment process.

Natural Environment White Paper

On 7 June 2011 the Government published a White Paper on the natural environment "The Natural Choice". The Natural Choice white paper is directly linked to research in the National Ecosystem Assessment and acts on the recommendations of "Making Space for Nature", a report into the state of England's wildlife sites, led by Professor John Lawton and published in September 2010. The Natural Choice white paper aims to improve the quality of the natural environment across the United Kingdom, halting the decline in habitats and species, and strengthening the connection between people and nature. The Natural Choice white paper aims to create a radical shift in how natural assets are valued by incorporating the natural environment into economic planning. This will also apply to how water can be accounted for and provide for the mechanisms to reflect external environmental costs in prices.

TWUL are engaged with Defra, other Regulated Companies, the Royal Society for the Protection of Birds and others to explore the opportunities, and additional expectations on the water industry stemming from the Natural Choice white paper. The potential consequence for TWUL is assuming additional responsibility for the health of water sources. In its response to the consultation on the Natural Choice white paper TWUL highlighted the importance of stability in its planning for environmental challenges as well as the importance of providing flexibility to the regulators to allow companies affected to produce environmental outputs using their chosen methods.

Environmental Permitting

The Environmental Permitting Regulations (England and Wales) 2010 were introduced on 6 April 2010, replacing the 2007 Regulations. The 2007 Regulations combined the Pollution Prevention and Control Regulations, the Waste Incineration Regulations and the Waste Management Licensing Regulations. Their scope has since been widened to include water discharge and groundwater activities, radioactive substances and provision for a number of Directives.

The aim of the Environmental Permitting regime is to protect the environment from the potentially harmful effects of industrial installations: operators of certain such installations are required to be authorised by the EA (or local authority) under an Environmental Permit and are required to use the best available techniques to reduce environmental damage both during the life of an installation and following its closure. In addition, the operators of such installations should follow applicable environmental guidance which provides information relevant to all sectors regulated under the Environmental Permitting Regulations. For example, noise, odour, energy efficiency, or protection of land.

Depending on the type and volume of waste processed, certain water company activities can be subject to the Environmental Permitting Regime, including but not limited to:

(a) incineration of sewage sludge with energy recovery;

(b) combined heat and power plants (CHP), dependant on size, which are used to burn biogas produced from the anaerobic digestion of sewage sludge; and

(c) ground water authorisation and discharge consents.

Water abstraction and impoundment licences are also expected to be merged into the Environmental Permitting Regime.

The EA continues to attempt to simplify and rationalise the regulatory regime, including that relating to the Integrated Regime. These "better regulation" initiatives intend to transfer monitoring responsibilities from the EA to the relevant companies. Discussions are under way between the EA and Regulated Companies to agree the processes and costs which will apply following each transfer. However, the application of and ongoing compliance with the Environmental Permitting regime to and of TWUL's installations may give rise to additional expenditure.

In April 2009, the EA introduced an Operator and Pollution Risk Appraisal ("**OPRA**") system and Operator Self Monitoring ("**OSM**") system to regulate companies' discharges into water. This risk-based approach allows the EA to assess pollution hazards and to determine the monitoring frequency and what an operator should pay in fees and charges based on the level of risk. As the responsibility, and therefore the cost, of monitoring falls on operators, the EA has reduced subsistence charges to cover the extra costs associated with OSM and will also reward good management through reduced OPRA scores and subsistence charges.

Sewage Sludge

The recycling of treated sewage sludge (biosolids) is implemented in the UK through The Sludge (Use in Agriculture) Regulations (1989) and supported by a Code of Practice for Agricultural Use of Sewage Sludge (DoE 1996)) (the "**Sludge Regulations**"). These regulations and the statutory code of practice ensure that applications to agricultural land are strictly controlled and that all applications are fully traceable and auditable.

Treated sewage sludge is also recycled in accordance with The Safe Sludge Matrix, which provides a voluntary code of good practice focused on food safety and stakeholder re-assurance developed by the water industry. It is anticipated that The Safe Sludge Matrix will receive statutory backing within a revision of the Sludge Regulations. The water industry has already invested for, and is complying with, the expected amendments in advance of the revised Sludge Regulations coming into force.

The recycling of treated sewage sludge on agricultural land as a fertiliser and soil conditioner is recognised by the Government and the European Commission as the Best Practicable Environmental Option in most circumstances.

It should be noted that sludge use in agriculture is subject to both market forces and legislation. Significant changes to markets or legislation could cause Regulated Companies to incur material expenditure, but both legislation and markets have been recognised as potential "Relevant Changes of Circumstance" by Ofwat in relation to licences of Regulated Companies.

Biodiversity

Several key pieces of UK legislation govern the regard TWUL must have to biodiversity in carrying out its duties.

A biodiversity duty was placed on all public bodies and statutory undertakers from 1 October 2006. This duty, set out in section 40 of the Natural Environment and Rural Communities Act 2006, requires that "every public body must, in exercising its functions, have regard, so far as is consistent with the proper exercise of those functions, to the purpose of conserving biodiversity." To demonstrate implementation of this duty, guidance published by Defra in May 2007 entitled "Guidance for Public Authorities on Implementing the Biodiversity Duty" states that conserving biodiversity includes restoring and enhancing species populations and habitats, as well as protecting them.

In addition, TWUL owns 18 Sites of Special Scientific Interest ("**SSSIs**"), statutory sites of national nature conservation importance. Under the provisions of the Wildlife and Countryside Act 1981 (as amended) and the Countryside and Rights of Way Act 2000, TWUL has legal obligations to take reasonable steps, consistent with the proper exercise of its functions, to further the conservation and enhancement of these sites. Compliance is monitored by the regulator, Natural England, who, with Defra, is currently working on new targets as the target in England for 95 per cent of the area of SSSIs to be in "favourable" or "un-favourable recovering" condition by 2010 has now passed. TWUL's land holding was 99.8% "favourable" or "favourable recovering" by 2010.

Both the Wildlife and Countryside Act 1981 and the Countryside and Rights of Way Act 2000 also set out strict legal protection for certain wildlife species and natural habitats in the UK. This has significant potential to impact upon TWUL's activities on its own land and in its wider operations across the Region, for example, by preventing or restricting construction in sensitive habitats.

Climate Change

Energy use in water and sewerage treatment processes results in emissions of greenhouse gases and constitutes a significant environmental impact resulting from a Regulated Company's activities. Regulated Companies are significant energy users and subject to the Climate Change Levy.

In November 2008, Parliament enacted the Climate Change Act 2008. One of the main aims of the Act is to improve carbon management and help the transition towards a low carbon economy in the UK. The Act establishes legally binding targets for the UK Government for greenhouse gas emission reductions through action in the UK and abroad of at least 80 per cent. by 2050, and reductions in CO_2 emissions of at least 34 per cent. by 2020, against a 1990 baseline. It also includes a carbon budgeting system to cap emissions over 5-year periods, with three budgets set at a time, to set out the Government's trajectory to its target in 2050. As a consequence of the Climate Change Act 2008, TWUL was directed to report on the current and predicted impact of climate change on its functions and its proposals and policies for adapting to climate change as well as its carbon emissions must also comply with any relevant guidance or directions made by the Secretary of State under this Act.

The Climate Change Act 2008 also gives the Government the power to ask public sector organisations (such as Ofwat), and statutory undertakers (including TWUL) to report on their assessment of the risks climate change poses to them, and the actions they are going to take in response, such as water resource development, leakage reduction, and flood resilience. This is known as the Adaptation Reporting Power. This is the primary legislative power available to the Government to influence behaviour on climate change adaptation. TWUL is subject to the Adaption Reporting Power and has been directed to report by 31 January 2011. As part of its forward planning, TWUL included climate change adaptation responses in its Final Business Plan and TWUL is now delivering on the Final Business Plan in the areas of water resource planning (to protect future water supplies), improving the flood resilience of key assets and through sewerage design (to reduce sewer flooding). A report was submitted to the Secretary of State for Environment, Food and Rural Affairs on 28 January 2011 which has been deemed to be compliant with the reporting requirements of Defra.

The Climate Change Act 2008 also includes a framework for the adoption of environmental trading schemes, such as the Carbon Reduction Commitment Energy Efficiency Scheme ("**CRC**"). The Coalition Government announced a fundamental change to the CRC as part of its Spending Review in October 2010. The Coalition Government announced that the CRC would be simplified to reduce the administrative burden on businesses, with the first carbon allowance sales for 2011-12 emissions now due to take place in 2012. Revenues from allowance sales will be used to support public finances, including spending on the environment, rather than recycled to participants as originally planned.

This is a fundamental shift from a cap and trade incentive scheme which would have been cost neutral to the Exchequer, and from a situation where good performance by companies who participate in the incentive scheme would result in those companies receiving a recycling payment which would be higher than the price that they had originally paid into the scheme, to a scheme where the revenue will be used to support public finances. Further detail on exactly how the scheme will operate has, at the date of this Prospectus, not been announced.

TWUL currently has six sites that are captured under the EU Emissions Trading Scheme ("**EU ETS**") established by Directive (2009/29/EC). Installations which fall within the EU ETS must also apply to the EA for a Greenhouse Gas Emissions Permit. Such installations have been allocated a certain number of allowances by the Government for Phase II of the EU ETS (for the period 2008 to 2012) in order to cap the total emissions of CO2 into the atmosphere. Installations are required to monitor and report their emissions and, at the end of each year, to surrender sufficient allowances to cover their emissions. If an installation's emissions exceed its allowances it must purchase further allowances on the open market or be subject to a fine.

The Government has established the first phase of transposition into UK law of the revised EU ETS, which sets out changes to the EU ETS, to commence in Phase III of the scheme (from 2013). In Phase III of the EU ETS there will be a significant increase in auctioning levels (overall, at least 80 per cent of allowances will be auctioned by 2020 compared to around 3 per cent in Phase II of the EU ETS) and allocation of allowances will be in accordance with benchmarks. All allowances in the electricity generating sector will be auctioned from 2013. The revised EU ETS Directive required the European

Commission to adopt such benchmarks for individual sectors, or subsectors, by 31 December 2010 following consultations with stakeholders and the relevant sectors. It specifies that the starting point for the development of such benchmarks shall be the 10 per cent of most efficient installations in the relevant sector during 2007-2008. The definition of combustion processes has been broadened in Phase III, capturing areas such as non-hazardous waste incineration.

As the European Commission is yet to determine the emissions cap and the allocation benchmarks, it is not yet possible to quantify the implications of the revised EU ETS for Regulated Companies. However, as there will be a shift from free allocation of allowances to the majority of allowances being sold at auction, and as the emissions cap is scheduled to be tightened each year from 2013, the cost of compliance with the EU ETS is likely to increase. The majority of TWUL's installations are within the generating sector and will require purchase of allowances in Phase III either through auction or direct trade to ensure compliance. The two sludge powered generators will be included in the EU ETS from Phase III increasing TWUL's exposure to the scheme. TWUL currently holds more than sufficient allowances for Phase II, which can be carried over to reduce the need to purchase allowances in Phase III if they are not sold on the open market.

The water and sewerage industry has also made a voluntary commitment to a 20 per cent. target for renewable energy use by 2020 and to research how it might better manage non-CO_2 greenhouse gas emissions from waste water treatment. Climate change appears to have been a main driver in the then Government's new water strategy. On launching the strategy in February 2008, the Government stressed the need to reduce CO_2 emissions from water undertakers, to improve efficiency and to reduce demand and wastage. TWUL reflected this need in its approach to AMP5.

TWUL is currently reassessing the impact of climate change with respect to UK Climate Panel 2009 Climate Change Projections and water resources to inform the case for potentially submitting a Notified Item to Ofwat for funding.

Contaminated Land

Part 2A of the EPA, together with certain implementing regulations and statutory guidance, establishes a legal regime for Local Authorities and the Environment Agency to address the remediation of contaminated land. The Contaminated Land Regime ("**CLR**") is designed to prevent harm to the environment or to human health or the pollution of controlled waters. A review of the CLR in January 2011 proposed revisions to the statutory guidance for the regime. A new methodology for "**SPOSH**" (Significant Possibility of Significant Harm) assessment was proposed and a revision of the definition of contaminated land with respect to groundwater, where land will be deemed contaminated if there is a "significant" possibility of significant pollution to controlled waters. This is in accordance with the definition under the Water Framework Directive. TWUL does not expect any material impacts from the review of the regime on the way it manages contaminated land encountered on its landholdings or during project work.

Under the CLR if the polluter or a knowing permitter cannot be found, the owner or occupier of the land may be held liable, whether or not it caused the contamination. Civil liability may also arise (under such heads of claim as nuisance or negligence) where contamination migrates into or on to third-party land and/or impacts upon human health, flora or fauna. Liability for contamination may also rest with a Regulated Company where the contamination arose as a result of the activities of one of its statutory predecessors. In practice, remediation of contaminated land is most likely to be triggered on the cessation of regulated activities or the redevelopment of land.

The Environmental Damage (Prevention and Remediation) Regulations 2009, discussed above, also give the EA and local authorities the power to order remediation by companies in instances where their activities cause damage to the environment or biodiversity, and where such damage is not within the scope of existing statutory regimes.

Asbestos

The Control of Asbestos Regulations 2006 impose a duty on those who own or control commercial premises to carry out detailed assessments for the presence of asbestos, record its condition and proactively manage the associated risks.

Trade Effluent Discharge

Regulated Companies are responsible under the WIA for regulating discharges of trade effluent into their foul sewers. Industrial and trade sources of effluent to sewers arise from a wide range of industries, such as food processors, chemical manufacturers, metal finishing, vehicle washes and laundries. Regulated Companies control these discharges to protect the public, their personnel, their operations and the environment.

Under section 118 of the WIA, an owner or occupier of a premises who wishes to discharge trade effluent into public sewers must apply to the relevant Regulated Company for consent to do so. In considering whether or not to grant such a consent, the Regulated Company will have regard to the effect that receiving the effluent will have on the performance of its sewer network, its wastewater treatment works and associated discharges to the environment. Such a consent may be subject to conditions imposed by the Regulated Company. These conditions can stipulate parameters in respect of the nature, composition and flow to be met by the discharger to minimise the hydraulic and polluting effects of the discharge. Charges may be paid in respect of the receipt and treatment of the trade effluent discharge. Under the Trade Effluents (Prescribed Processes and Substances) Regulations 1989 (SI 1156) (as amended in 1990 and 1992), when trade effluent contains prescribed substances, or more than a prescribed quantity of such substances, or derives from a stipulated process (that is "**special category effluent**"), the Regulated Company may refer to the EA, where appropriate, any application to make such a discharge. The EA may then determine whether, and if so upon what conditions, the Regulated Company may accept the discharge. The Regulated Company may not consent to the discharges to which the reference relates until the EA serves notice on the Regulated Company of its determination on the reference, unless already controlled under Pollution and Prevention Control Regulations 2000 or the EPR. Any person aggrieved by the refusal of a Regulated Company to give consent or by conditions imposed in a consent can appeal to Ofwat.

The Regulated Company may review the terms of any consent after a period of two years from date of issue, without the agreement of the discharger and vary those terms by notice. In addition, in certain circumstances, the EA has the power to review discharges of special category effluent, and may require variation of the relevant discharge. Again, this power is subject to restrictions, unless the review is required to enable compliance with EU obligations or international agreements, or for the protection of the environment.

A Regulated Company may enter into an agreement with the owner or occupier of trade premises for the reception and treatment of trade effluent, instead of granting a consent. If the trade effluent which is to be the subject of an agreement is special category effluent, the Regulated Company may refer to the EA. The Regulated Company will then utilise the same referral process before entering into any agreement regarding special category effluent.

It is an offence to discharge trade effluent from trade premises without a consent from, or an agreement with, the relevant Regulated Company, or to fail to comply with the conditions in a consent, and in both cases the maximum penalty is £5,000 if such penalty is imposed by a Magistrates Court or is an unlimited fine if taken to the Crown Court.

The implementation of the Water Framework Directive, and reviews of discharge consents by the EA under other relevant directives (such as the Habitats Directive) may also drive trade effluent consent reviews, tightening trade effluent consent limits if this is necessary to meet discharge consents.

Sewer Flooding

When a sewer carrying either foul water, surface water run-off or a combination of both foul and surface water (a "combined" sewerage system) reaches its capacity during heavy rainfall, sewage overflows into rivers or out of external or internal drains. Section 94 of the WIA places a duty on every Regulated Company to ensure its area is properly drained via an adequate sewerage system. This duty is enforceable by the Secretary of State or Ofwat who, under section 18 of the WIA, may make an Enforcement Order securing compliance. Householders can bring proceedings against the Regulated Company in respect of its failure to comply with such an Enforcement Order. However, where such an order has not been made, the only remedy available to such householders is to request that the Secretary of State or Ofwat make an order and, if one is not forthcoming, to pursue judicial review

proceedings against either the Secretary of State or Ofwat on the grounds of their failure to act. Householders do not have the right directly to enforce section 94 against Regulated Companies. This was confirmed by the House of Lords' decision in *Marcic v Thames Water Utilities* [2003] UKHL 66.

In *Environment Agency v Thames Water Utilities Limited*, the EA has prosecuted TWUL for a number of offences alleged to have occurred in 2003, including the deposit of untreated sewage constituting "controlled waste" without a waste management licence contrary to section 33(1)(a) of the EPA. Such deposits are an inevitable consequence of sewer flooding. A preliminary point of law was referred by the Divisional Court to the ECJ (Case C-252/05) as to whether or not sewage escaping from a sewer governed by the UWWTD and the WIA falls within the scope of domestic waste controls implementing the Waste Framework Directive 75/442/EEC. The ECJ ruled that waste water which escapes from a sewerage network maintained by a statutory sewerage undertaker, pursuant to Council Directive 91/271/EEC of 21 May 1991, constitutes waste within the meaning of the Waste Framework Directive 75/442/EEC. The cases were then remitted to the magistrates' court for determination and in judgements recently given, TWUL was found guilty. TWUL is appealing this decision. However, if upheld this determination may result in significant and costly changes to the operational practices of sewerage undertakers and, to the extent such expenses need to be incurred, it is currently unclear whether Ofwat will consider such expenditure as a Relevant Change of Circumstances under a licence (resulting from a "**Change of Law**"), and hence whether a Regulated Company will be eligible to apply for an IDOK.

The FWMA contains proposals requiring the Secretary of State to set national standards for sustainable drainage and for prohibiting the construction of certain new drainage systems without approval of (generally) a local authority. The FWMA introduces requirements on local authorities to adopt and maintain sustainable drainage systems (SUDS) (although the FWMA also provides powers for the Secretary of State to allocate any of these functions to other bodies, e.g. sewerage companies, if he so chooses), and on developers to demonstrate that they have met national standards for sustainable drainage before they can connect any residual surface water drainage to a public sewer (amending section 106 of the WIA) is expected to result in less water reaching sewer treatment works, reduced maintenance work for sewerage companies and a reduced risk of flooding from overflows.

The WRA and Discharge into Controlled Waters

It is a criminal offence under the Environmental Permitting Regulations to carry out a water discharge activity without a permit (as defined in Schedule 21 of Environmental Permitting Regulations) but remains in effect, to cause or knowingly permit any discharge of trade or sewage effluent or other poisonous, noxious or polluting matter into controlled waters.

The principal prosecuting body is the EA, although third parties also have the right to prosecute. Under the Environmental Permitting Regulations, the EA is empowered to take remedial action to deal with actual or potential pollution of controlled waters and may recover the reasonable costs of any works undertaken from any person who caused or knowingly permitted the pollution (and can also require that person to take the remedial action itself).

If Regulated Companies wish to discharge polluting matter into controlled waters, whether from continuous or intermittent outfalls, they must seek a permit from the EA. For sewage and most trade effluent, applications are made under Schedule 5 of the Environmental Permitting Regulations. For certain types of 'clean' (potable) water discharges, consents under the WIA may be secured for discharges following works carried out at reservoirs, wells or boreholes. The EA has the power to grant or refuse permits, to impose conditions, or to modify, vary or revoke such permits. Permit conditions may control the quantity of a discharge or the concentrations of particular substances in it, or impose broader controls on the nature of a discharge. They are based on objectives set by the EA for the quality of the relevant receiving water as well as any relevant water quality standards in EU Directives.

For discharges from qualifying sewage treatment works, the minimum standard is that established under the UWWTD, which is implemented by the Urban Waste Water Treatment Regulations 1994 (as amended in 2003). This requires minimum standards of treatment according to the size of the population served and the sensitivity of the waters into which the treated water is discharged.

Discharges into certain watercourse (such as canals) may require an additional tier of licensing as a result of having to negotiate contracts with the owners of such watercourses in order to be able to discharge treated sewage effluents (or other discharges) into such watercourses.

Combined Sewer Overflows

The development of urban drainage systems has evolved over time. Modern sewerage networks convey foul sewage and surface water (rainfall run-off) in separate systems, but older sewerage systems are designed to cope with the combined flow of sewage and storm water (surface, or rainfall run-off). Following heavy rain, the volume of sewage and storm water combined can exceed the capacity of the sewerage system and the excess flows are allowed to flow into a watercourse in order to prevent flooding in the surrounding area. This excess flow facility, known as a combined sewer overflow, requires a permit from the EA. Drainage systems vary considerably in their age, design and hydraulic performance, and the EA regulates and monitors the impact of these discharges on the aquatic environment.

It is a requirement of the UWWTD that Member States limit the pollution of receiving waters by untreated sewage discharge. To meet this requirement, the EA uses performance criteria to assess the impact of CSOs and to determine whether they should be regarded as 'unsatisfactory'. CSOs will be regarded as unsatisfactory if, for example, they cause a breach of water quality standards or other EC directives, they cause or significantly contribute to a deterioration in river chemical or biological quality/class, or they cause a significant visual or aesthetic impact due to solids or sewage fungus and have a history of justified public complaint.

Any discharges which are considered to be 'unsatisfactory' by the EA will be required to be improved through the investment programme agreed as part of the Periodic Review process. However, the EA's view is that (with the notable exception of the London network) all 'unsatisfactory' discharges have now been recognised, and therefore any new 'unsatisfactory' discharges will be considered a matter of either a lack of maintenance or an enhancement required due to growth.

Non-compliance

Section 38 of the Environmental Permitting Regulations provides for a number of offences that apply to discharges made to controlled waters without the defence of an Environmental Permitting Regulations permit or to discharges that made outside the specified conditions detailed within the permit. Pollution offences include causing or knowingly permitting any poisonous, noxious or polluting matter or any trade or sewage effluent to enter controlled waters. The maximum penalty on summary judgement is £50,000 or imprisonment for a period not exceeding 12 months (or both). If convicted on indictment, the maximum penalty for these offences is an unlimited fine or five years' imprisonment, or both.

Under section 63 of Schedule 21 of the EPA a Regulated Company will be regarded as responsible for a discharge of sewage effluent if it was bound to receive into its sewers the matter included in that discharge. However, a Regulated Company will not be guilty of an offence under section 38 if the offending discharge is attributable to a discharge into sewer by a third party which the Regulated Company was not bound to receive and could not reasonably have been expected to prevent.

Groundwater

Activities that could lead to the contamination of groundwater such as direct and indirect discharges of certain prescribed substances to groundwater, are regulated under the Environmental Permitting Regulations. The Environmental Permitting Regulations require authorisation of such discharges. Direct discharges, which are those ones which enter, without percolation, straight into groundwater, are already controlled under, for example, the WRA or the Environmental Permitting regime (previously known as the Integrated Regime) (see above), and applications for authorisations for these discharges will continue to be made under that legislation. Any authorisations granted must be consistent with the requirements of the Environmental Permitting Regulations. Indirect discharges, which are those which enter groundwater following percolation through ground or subsoil, may arise from the disposal or tipping for the purposes of disposal to land of certain prescribed substances, and applications for authorisations for them will be made to the EA under the Environmental Permitting Regulations. The

EA also has the power under the Environmental Permitting Regulations to issue notices to control activities (other than the activities of disposal) which may cause an indirect discharge to groundwater of certain prescribed substances - for example, oil from underground storage tanks. Before issuing such notices, the EA must take account of any code of practice issued for the purposes of the Regulations.

The Groundwater Directive was adopted in December 2006. The U.K. carried out a consultation regarding transposition into U.K. law of Article 6 of the Directive (relating to measures to prevent or limit inputs of pollutants into groundwater), which closed on 20 August 2008 and the Groundwater Regulations came into force in October 2009, now superseded by the Environmental Permitting Regulations. Each of the proposals put forward by the Government may generate compliance costs to meet the requirements to protect, enhance and restore groundwater bodies and to reverse any significant upward trends of pollutants. Whilst it is anticipated that Regulated Companies will seek to include any expenditure required to comply with the Groundwater Directive in their respective investment programmes, it is not possible to predict the degree to which this will be allowed for by Ofwat. However, according to Defra, the impact of the proposed amendments on Regulated Companies should be minimal and the overall costs are expected to be neutral.

Hazardous Substances

Regulated Companies operate facilities which house hazardous substances (e.g. oil, Polychlorinated Biphenyls ("**PCBs**")) and which therefore could be subject to the Control of Pollution (Oil Storage) (England) Regulations 2001 (as amended) and, where exempt, the Environmental Permitting Regulations. All new and existing above ground storage facilities holding more than 200 litres of oil must have minimum design standards to prevent spilt or leaking oil from entering controlled waters. Holding electronic or electrical equipment containing hazardous substances (e.g. Mercury or PCBs) is prohibited under the Environmental Protection (Disposal of Polychlorinated Biphenyls and other Dangerous Substances) (England and Wales) Regulations 2000, and any equipment requiring to be removed must be recycled or disposed of in accordance with the Waste Electrical and Electronic Equipment (WEEE) Regulations 2006. The Control of Major Accident Hazards Regulations 1999 (as amended) ("**COMAH Regulations**") give effect to a safety regime for the prevention and mitigation of major accidents at establishments where named dangerous substances or dangerous substances falling within certain generic categories are present in specified quantities. The COMAH Regulations apply at two thresholds, the lower tier and the top tier, depending upon the quantities of dangerous substances that are present. Operators must comply with lower tier duties (such as taking all measures necessary to prevent major accidents and limit their consequences) and operators that have quantities of dangerous substances over the higher threshold are subject to the additional top tier duties (such as preparation of a safety report).

Regulatory Civil Sanctions

The Regulatory Enforcement and Sanctions Act 2008 provides a new set of civil sanctions which are available to the EA and Natural England for breaches of numerous pieces of environmental legislation applicable to the water industry from January 2011 for example, the WIA, WRA and various other regulations for waste management and greenhouse gases.

The sanctions are designed to provide regulators with enforcement powers other than the criminal justice system and to provide a more comprehensive regulatory enforcement regime and enable environmental restoration where appropriate. In addition, they are designed to take account of sound operator competence and prioritise environmental outcomes over financial penalties to businesses.

Fines range from £300 fixed monetary penalties for minor administrative breaches, up to £250,000 for major pollution incidents.

Management of Water Resources

Water Resources Planning

TWUL, as a statutory water undertaker, has a duty under the WIA to develop and maintain an efficient and economical system of water supply within its supply area. In 1999, 2004 and 2006 TWUL submitted Water Resources Plans on a voluntary basis to the Environment Agency. In 2007, Section 62

of the Water Act amended the WIA such that the preparation and publication of Water Resources Management Plans became a statutory requirement. The purpose of a Water Resources Management Plan is to show how the water undertaker will manage and develop water resources to comply with its obligations.

The draft Water Resources Management Plan must be submitted to the Secretary of State. In preparing the Water Resources Management Plan, water undertakers are required to comply with a set of Directions[10] which impose matters to be addressed in Water Resources Management Plans including a period of statutory public consultation on the draft Water Resources Management Plan. The Water Resources Management Plan covers a 25-year period. TWUL published its first statutory draft Water Resources Management Plan in May 2008. Following the publication of the draft Water Resources Management Plan there was a period of statutory public consultation from May to August 2008. In February 2009, TWUL published a Statement of Response which set out how the draft Water Resources Management Plan had changed in light of consultee representations and a revised draft Water Resources Management Plan was published in September 2009. In August 2009, the Secretary of State called for an inquiry on TWUL's draft Water Resources Management Plan. The inquiry commenced in June 2010 for five weeks with the result that the Secretary of State announced that TWUL's draft Water Resources Management Plan did not meet all of the statutory requirements. Accordingly, TWUL will be asked to make modifications to its draft Water Resources Management Plan during the course of 2011 to ensure that it is fit for its purpose. Subject to approval of the draft Water Resources Management Plan by the Secretary of State, the Water Resources Management Plans are then subject to an annual review (the conclusion of which must be sent to the Secretary of State) and will have to be revised every five years, or in any case where the annual review indicates a material change in circumstances, or the Secretary of State directs that a revised draft should be prepared.

Water Resources Management Plans are considered likely to fall within the scope of the Environmental Assessment of Plans and Programmes Regulations 2004 which implemented the European Directive Assessment of the Effects of Certain Plans and Programmes on the Environment (2001/42/EC) (the SEA Directive). TWUL voluntarily undertook an assessment of the draft Water Resources Management Plan in accordance with the SEA Directive and in accordance with industry guidance. The SEA Environmental Report was published in conjunction with the draft Water Resources Management Plan in May 2008 and an addendum published in conjunction with the revised draft Water Resources Management Plan in September 2009. In addition, Water Resources Management Plans will need to take account of the Habitats Directive (92/43/EEC) and the likely effect of any measures on protected habitats and a screening assessment in accordance with the Habitats Regulations was published to accompany the revised draft Water Resources Management Plans in September 2009.

In November 2008, Ofwat announced the introduction of regulatory targets for Regulated Companies with respect to water efficiency. The regulatory target is an annual target of an estimated saving of one litre of water per property per day, through water efficiency activity, during the period from 2010/11 to 2014/15. A revenue-corrected price cap would compensate Regulated Companies for any revenue shortfall relative to expectations, but Regulated Companies would get to keep the cost saving from supplying less water. Ofwat would 'name and acclaim' the best performing Regulated Companies. Where a Regulated Company failed to meet its targets, due to circumstances within the Regulated Company's control, Ofwat might impose a penalty, such as 'naming and shaming' the Regulated Company, requiring an action plan or making a shortfall adjustment in subsequent price limits.

There are various water restriction options available to Regulated Companies in times of drought, which could be applied, in the order set out below, depending on the severity of the drought situation and the approval of either Defra or the EA.

(a) Voluntary water restrictions which generally involve press campaigns to encourage customers to voluntarily restrict their use of water.

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10 The Water Resources Management Plan Regulations 2007, The Water Resources Management Plan Direction 2007, The Water Resources Management Plan direction (No 2) 2007, The Water Resources Management Plan Direction (No 2) (Amendment) 2007.

(b) A hosepipe and sprinkler ban which prohibits the watering of private gardens with hosepipes, sprinklers, perforated hoses, trigger hoses or irrigation systems and the washing of all private cars with hosepipes. Watering gardens with watering cans or using buckets to wash cars is permitted. These restrictions were permitted by the WIA, they can be implemented following publication of notices in newspapers and do not require Defra or EA consent. Following a public consultation, the Government announced in October 2007 its intention to replace the current hosepipe ban rules with a water use (temporary) bans measure, to expand the range of prohibited hosepipe uses. Many of the uses specified in the Drought Direction 1991 detailed below will also be moved into the proposed discretionary use ban. The FWMA enables Regulated Companies to take actions to conserve water at an earlier stage, and to control a wider range of non-essential uses of water, during a period of drought. The FWMA and Water Use (Temporary Bans) Order become law on 1 October 2010.

(c) An Ordinary Drought Order is granted by Defra and allows a Regulated Company to stop or limit the use of water for a range of purposes, specified in the Drought Direction 1991 (made by the Secretary of State), such as: watering of parks and sport or recreation grounds; ornamental fountains; cleaning the exteriors of buildings; washing of road vehicles, railway rolling stock, aircraft (other than for safety/hygiene). An Ordinary Drought Order lasts for up to six months, but can be extended for a further six months. The prohibition of the watering of parks, gardens and landscaping, ornamental fountains, the filling of swimming pools and the washing of buildings and private boats are covered by the powers in the Water Use (Temporary Bans) Order 2010.

(d) A drought permit ("**Drought Permit**") is granted by the EA and allows a Regulated Company to take water from new sources, or increase the amount of water taken from existing sources. A Drought Permit lasts for up to six months, but can be extended for a further six months.

(e) An Emergency Drought Order is granted by Defra and allows a Regulated Company to limit usage "for such purposes as it thinks fit", and to set up standpipes or water tanks to provide water during rota cuts. Emergency Drought Orders can last for up to three months, but can be extended for a further two months.

The necessary powers for an Ordinary Drought Order, a Drought Permit and an Emergency Drought Order are provided under the WRA.

Regulated Companies are under a statutory duty to prepare, consult on and maintain a drought plan. This plan should prescribe how the Regulated Company will continue during a period of drought to discharge its duties to supply adequate quantities of wholesome water with as little recourse as reasonably practicable to Ordinary Drought Orders, Drought Permits or Emergency Drought Orders.

The plan must include measures that the Regulated Company might need to take to restrain the demand for water in its Water Region and those it might need to take to obtain extra water from other sources. The Secretary of State may issue directions as to the content of the plan. Drought plans must be reviewed within three years of the date they were published and should be revised or reviewed if there is any material change of circumstances or if the Secretary of State directs. TWUL's existing drought plan was approved by Defra in November 2010.

Sustainability Reductions

The management of water resources by Regulated Companies is subject to a number of challenges, including: dry weather conditions, climate change; increasing demands for water; rises in leakage rates; aquifer contamination from industrial and agricultural pollution; and reductions in abstraction required to ensure sustainable river systems. In relation to the latter, the EA has been instructed by Defra to use its powers to revoke damaging abstraction licences. The Restoring Sustainable Abstraction Programme was set up by the EA in 1999 with the purpose of investigating and, where appropriate, resolving the impacts of abstraction on sites designated by statutory drivers (for example, the Habitat Regulations) and undesignated sites of concern to local communities.

In previous years, funding for environmental sustainability reductions has been provided through the Periodic Review with the solution chosen to achieve the abstraction reduction (such as use of an alternative water supply source) being funded prior to its implementation. This funding mechanism is no longer available for the AMP4 Period and subsequent AMP Periods. Licence reductions will now be funded through the payment of compensation by the EA, with the money being paid after the licence reduction. The EA plans to raise the funds through the abstraction charges scheme, the majority of which charges are paid for by Regulated Companies. From 2012, the EA will have the power to revoke existing abstraction licences without paying compensation, so long as it gives six years' prior notice. At this time, a funding route for sustainability reductions will need to be found, and it is possible that the Periodic Review mechanism will be used again.

Localism Bill

The Localism Bill includes provisions to enable the transfer, from the UK Government to local and public authorities, of liability for fines under breaches of European Directives. The Localism Bill would, if enacted, give the Secretary of State the power to make orders designating bodies exercising public functions as 'public authorities'. Our understanding, following legal advice, is that sewerage undertakers could be designated in this way.

The power to require a payment can only be made if the Secretary of State is satisfied that the authority caused or contributed to the infraction

Planning and Environmental Impact Assessment

All development carried out by Regulated Companies previously required planning permission from the relevant local planning authority under the Town and Country Planning Act 1990 ("**TCPA**"), unless the development was considered to be permitted development under the Town and Country Planning (General Permitted Development Order) 1995 (as amended), in which case planning permission for it was effectively granted by the development order without any application being made. However, following the passing of the Planning Act 2008, any development categorised as a Nationally Significant Infrastructure Project ("**NSIP**") will require consent in the form of a "Development Consent Order" from either the Infrastructure Planning Commission ("**IPC**") which came into being on 1 March 2010 or the Secretary of State. During the coming year it is expected that the Decentralisation and Localism Bill will be passed which will abolish the IPC, but the associated process is expected to be retained. Following this, a new Major Infrastructure Planning Unit within the Planning Inspectorate will examine applications and the Secretary of State will be given the final decision on NSIPs. The planning procedures applicable to development under the TCPA and those applicable to NSIPs are summarised, in turn, below.

Town and Country Planning Act 1990 procedures

Where development is subject to the TCPA, the relevant local planning authority will consider applications for planning permission against the backdrop of the development plan compiled for its area, which sets out objectives, policies and proposals for the use of land. Certain types of projects, such as the development of new pipelines or reservoirs, or the construction of or extensions to sewerage or water treatment works, may also be subject to an environmental impact assessment ("**EIA**") under the Town and Country Planning (Environmental Impact Assessment) (England and Wales) Regulations 1999 (as amended) (the "**EIA Regulations**"). EIA is a procedure for drawing together in a systematic way a project's likely significant environmental effects in an Environmental Statement ("**ES**"). Projects falling within Schedule 1 of the EIA Regulations (for example, construction of a new waste water treatment plant with a capacity exceeding 150,000 population equivalent) will require an environmental impact assessment in every case. Following changes to the EIA Regulations in 2008, an EIA may have to be carried out not only at the initial application stage, but also potentially at the time of submission of reserved matters. Projects falling within Schedule 2 of the EIA Regulations (for example a waste water treatment plant which does not fall within Schedule 1 but where the area of development exceeds 1,000 square metres) will require an assessment only if they are judged likely to give rise to significant environmental effects.

The aim of an ES is to focus on the significant effects of the development, not all of the potential environmental effects. As such, the first stage of the EIA is usually the production of a scoping report

for consultation with the local planning authority and other specified consultees. This allows consultees to express an early opinion on the nature and scope of issues that need to be considered in the ES and the developer to concentrate the assessment on the most important issues.

The EIA is reported in an ES which must contain: a description of the development; an outline of the main alternatives to the development; a description of the aspects of the environment likely to be significantly affected by the development; the data necessary to identify and assess the main environmental effects; the measures to be taken to mitigate identified environmental effects and a non-technical summary. The ES must accompany the planning application that is submitted to the local planning authority. The EIA Regulations require that the ES be publicised; public authorities with relevant environmental responsibilities and the public must be given an opportunity to give their views about the project and the ES. The local planning authority is under a duty to take into account the environmental statement, together with any representations made on it, before determining the planning application.

Applicants have the right to appeal against a decision to refuse an application for permission, or against the failure of the local planning authority to make a decision on an application. Planning appeals are usually dealt with by the Planning Inspectorate on behalf of the Secretary of State, but in the case of statutory undertakers, appeals are decided by the Secretary of State jointly with the relevant minister.

Planning Act 2008

Following the passing of the Planning Act 2008, any development defined as an NSIP will require consent in the form of a Development Consent Order ("**DCO**"). The Planning Act defines various categories of project as being an NSIP, including, relevantly, the construction or alteration of a dam or reservoir, development relating to the transfer of water resources and the construction or alteration of a waste water treatment plants. Projects which fall within these categories and which meet certain specified criteria (for example, relating to treatment or storage capacity) will be an NSIP for which a DCO is required. Where projects do not meet criteria under the Planning Act 2008, the conventional regime under the TCPA will remain.

The Planning Act 2008 provides for the Secretary of State to designate a national policy statement ("**NPS**") to set out national policy in relation to one or more types of development. Before designation, an NPS must be subject to consultation and publicity as well as Parliamentary consideration. A draft NPS for waste water was published for consultation in November 2010. It referred to the Thames Tunnel Project and Deephams Sewage Treatment Works as being projects of national significance. In general an NPS provides the national policy framework for certain types of projects (for example, water or waste water) against which planning decisions will be made.

Under the Planning Act 2008, the promoter of an NSIP has a statutory duty to follow a detailed pre-application procedure which will involve both publicity and consultation. The application will be submitted to the IPC, rather than the local planning authority, which will usually have six months to examine the application. If an NPS has been designated for the type of project being promoted, then the IPC will be the decision-maker responsible for determining the application. If no NPS is in place, then the IPC will examine the application and prepare a report for the Secretary of State to make the final decision. The time period for making a decision on whether or not to grant the DCO is a further three months following the examination period. It will be possible to appeal a decision to refuse or grant development consent on legal grounds by judicial review, which must be brought in the High Court within six weeks. The intention of the legislation is that NSIPs will be dealt with more efficiently during the examination and determination stage, but the process is "front-end loaded" with significant pre-application consultation requirements.

EIA will still need to be conducted in relation to NSIPs where required under the Infrastructure Planning (Environmental Impact Assessment Regulations) 2009.

On 7 September 2010, the Secretary of State for the Environment announced that development consent for the Thames Tunnel project should be dealt with under the regime for NSIPs established by the Planning Act 2008 given the scale, complexity and national significance of the scheme.

In deciding an application for a DCO, the IPC or Secretary of State (as the case may be) must have regard to, amongst other things, any local impact report prepared by relevant local authorities, any relevant NPS, and any other matters which the IPC thinks are important to the decision.

Another effect of the Planning Act 2008 is the proposed imposition of a community infrastructure levy ("**CIL**"), which is a charge payable by the developer/owner where their development increases demands on local infrastructure. The Government published new regulations in February 2010 to implement the CIL, which came into effect on 6 April 2010. The regulations give local planning authorities a discretionary power to charge a CIL. Before they can charge a CIL, they would have to prepare charging schedules; therefore, it is likely that a CIL will be introduced gradually whilst local authorities decide whether or not to proceed and prepare their charging schedules. Utility and infrastructure development involving new occupied buildings in excess of 100m² would generally be subject to CIL. The Government is understood to be minded to continue with CIL but there may be significant changes in the way it is implemented.

Competition in the Water Industry

General

Each Regulated Company effectively holds a geographic monopoly within its appointed area for the provision of water and sewerage services although there is some limited competition. Ofwat have stated that they will use their powers under the Competition Act to investigate and prohibit anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry.

The current main methods for introducing competition are:

(a) inset appointments which allow one company to replace another as the statutory undertaker for water or sewerage services in a specified geographical area within the other Regulated Company's appointed territory (see the section "*Termination of a Licence*" above);

(b) facilitating developers, or their contractors, to provide new water mains and service pipes instead of asking Regulated Companies to do the work ("self-lay"). The Water Act introduced a statutory framework for self-lay (see below);

(c) water supply licence (retail) - when a water supply licensee purchases wholesale supplies of water from the existing water undertaker and supplies water to a customer's eligible premises (i.e. using 50 megalitres per annum). The Water Act introduced a statutory framework for such licences. Regulated Companies have published indicative access prices, based on the "cost principle" which indicate the approximate scale of discount they would offer to licensees;

(d) water supply licence (combined) - when a water supply licensee introduces water into the supply system and supplies water to its customer's eligible premises using a Regulated Company's network (referred to as "**common carriage**"). All Regulated Companies maintain access codes which set out the conditions under which licensees may introduce water into their networks;

(e) cross-border supplies where a customer in an area adjacent to a neighbouring Regulated Company's territory can connect to another Regulated Company's network and receive a supply; and

(f) private suppliers or private sewers including on-site water and effluent treatment.

However, Ofwat are concerned that these methods are not sufficient to promote effective competition. On 13 July 2007, Ofwat published a consultation paper which set out a number of possible options for developing the current regime, as well as various options for longer term change to the water and sewerage industry (see "*Consultation on market competition in the water and sewerage industries in England and Wales*", published 13 July 2007). This was followed in December 2007 by a further consultation document setting out its proposals for introducing further competition in the water and sewerage industry in England and Wales by way of changes to the regime (see "*Market competition in*

the water and sewerage industries in England and Wales Part I: Water Supply Licensing", published 20 December 2007). This document also sets out industry responses to the longer term changes that it identified in the July 2007 consultation paper. Ofwat published the second part of that report on 16 May 2008 which, amongst other things, considers these issues in more detail (see "*Ofwat's review of competition in the water and sewerage industries: Part II*").

In their May 2008 report, Ofwat set out recommendations to government as to the measures that could be taken to increase the benefits of competition in the water and sewerage sector.

Many of these proposals would, if ultimately implemented, require legislative changes and therefore the support of the Government. The recommendations include:

(a) Vertical separation: As a first step towards vertical separation, Ofwat intend to require Regulated Companies to separate their accounting for their different activities. Ofwat also intend to introduce formally separated price controls for the price control period after 2015. Ofwat are also recommending the legal separation of Regulated Companies' retail businesses.

(b) Retail services market: In addition, Ofwat recommend removing the "costs principle" for determining access prices from the legislation and replacing it with a set of general criteria for access pricing and requiring Ofwat to decide the specific method(s) for access pricing having regard to these criteria. Ofwat also recommend including sewerage retail services within the competition framework.

(c) Water resources and treatment: Ofwat are recommending the potential introduction of changes to the regime (including water abstraction licence trading). Ofwat will work with the EA to develop this proposal. Ofwat will also ensure that future price controls do not unnecessarily perpetuate market power in contestable upstream markets.

(d) Sewerage, sewage and sludge treatment and disposal: Ofwat intend to conduct an analysis to assess the potential for competition in sewerage and sludge treatment and disposal markets.

(e) Ofwat recommend that, in principle, inset appointees should be treated in the same as other appointed water and sewerage companies, in relation to all its recommendations. Ofwat will consider the detailed implications for inset appointees of each of their proposals.

On 17 December 2008, Ofwat published a summary of the responses received in relation to their May 2008 report. Ofwat have also contributed to the Cave Review.

The Cave Review, which was announced in "*Future Water - the Government's Water Strategy for England*" published on 7 February 2008, conducted an assessment of the costs, benefits, risks and feasibility of extending competition and contestability in water and sewerage services by looking at potential models in liberalised markets, best practice in other industries and demand from stakeholders. On 18 November 2008, the Cave Review published an interim report for consultation. On 19 January 2009, Ofwat published their response to the Cave Review interim report (see "*Ofwat's response to the independent review of competition and innovation in water markets*", published on 19 January 2009).

On 22 April 2009, the final Cave Review report, which made recommendations to government, was published. Again, many of these recommendations would, if ultimately implemented, require legislative changes and therefore the support of the Government. In summary, the Cave Review is in favour of a phased approach for the introduction of competition, starting with customer groups and types of activity where the risk-return ratio is most favourable (non-household customers) and then introducing further competition at appropriate break points on the basis of advice from Ofwat and other parties. The report focuses on retail competition, reforms to the abstraction licence and discharge consent regimes and upstream competition. The recommendations include:

(a) Abstraction licence and discharge consent regimes:

(i) In those areas where licence levels are unsustainable, the EA should be permitted to run reverse auctions (initially on a pilot basis). In those areas where negotiated agreements failed to reduce licence levels, a scarcity charge should be introduced on an administrative basis and increased over time until abstractions are sustainable. Legislation should be introduced to allow the EA to increase abstraction charges beyond cost recovery. When abstractions fall to a sustainable level, the charge would fall to zero.

(ii) In areas where licence levels are sustainable, licences should be fully tradable subject only to modification for direct environmental impacts or impacts on other users from a change of use or location. Legislation is required to enable the EA to collect and publish trade prices to provide greater information to traders about the potential value of licences.

(iii) In order to balance protecting the environment against competing extractive uses of water and to facilitate greater competition, the EA should take a more risk-based approach to allocating abstraction licences.

(iv) Discharge consent holders should be able to trade their discharge consents on a pollutant basis subject only to modification for direct environmental impacts from a change of location. In addition, a pilot should be run to investigate the potential of trading between point source and diffuse emissions. Discharge consent conditions could also better reflect the impact of discharge on the environment. Further research to establish the costs and benefits of more flexible licensing conditions should be conducted.

(b) Upstream competition:

(i) The current WSL regime should be reformed and supplemented with a market-like framework as soon as is practicable. This would involve:

(A) An obligation for incumbents to procure the best value combination of water, sewerage and infrastructure supplies as part of the regulatory process. Regulated Companies' decisions would be scrutinised by a procurement panel and would be subject to review by Ofwat in making their determination under the Periodic Review and the EA in determining the management of water resources.

(B) Unbundling the current combined supply licence and creating a new upstream licence for companies wishing to introduce raw or treated water into an incumbent's network or remove and treat sewerage or treat and dispose of sludge from it. There should also be a network licence for those looking to provide infrastructure. The current structure of licences for incumbents would remain as now.

(C) Regulated Companies to publish water and sewerage supply costs at a water resource zone level and transport costs across their region based on a common methodology.

(D) For water supplies to incumbents from an alternative provider, replacing the costs principle with an *ex-ante* access pricing framework based on full economic costs. For water supplies to retailers or large customers, replacing the costs principle with an *ex-ante* access pricing framework based on long-run avoidable costs.

(E) Introducing common operational codes and systems, binding on all market participants.

(F) Creating powers for Ofwat to undertake proactive investigations of non-compliance.

(ii) As part of Ofwat's review of regulation prior to the 2015 price control, water companies should be given a greater capital expenditure efficiency incentive for significant and sustained out-performance. Such an approach should also be applied to operating expenditure. Ofwat should address the potential bias towards capital expenditure by adopting a company based capital-operating expenditure ratio assumption as part of the Periodic Review process.

(c) Retail competition:

(i) The reduction of the threshold for competition applicable with respect to non-household users to five megalitres per annum as soon as practicable and to consider abolishing the retail threshold on the introduction of accompanying measures in 2012. Competition should then also be extended to retail sewerage services in order to give these users choice of both their water supplier and sewerage services supplier.

(ii) The decision on whether and when to extend retail competition to other customers should be taken by the Government on the basis of advice from Ofwat and other parties after consultation with stakeholders.

(iii) Changes to retail competition should be accompanied by negotiated settlements between the Consumer Council for Water, retailers, wholesalers and other stakeholders, initially to determine quality and service standards for wholesale supply. These should have significant weight in price limits of plus or minus three per cent. of turnover. A similar approach should be adopted between the Consumer Council for Water and monopoly household retailers and other stakeholders for household supply (where the customers are ineligible to choose their supplier). Ofwat would remain responsible for agreeing and incorporating the results of such negotiations in price limits.

(iv) Retail divisions of water companies should be made legally separate from their network business except where such separation could lead to unavoidable and unacceptably large bill increases to customers that outweigh the monetary and non-monetary benefits of such separation. Ofwat should advise the government on whether a *de minimis* threshold is appropriate for legal separation and, if so, its level. In such cases, functional separation could remain appropriate. Legal separation should be implemented around 2012.

(d) Inset appointments:

(i) In the medium term, the current system of inset appointments should be incorporated into a reformed upstream framework.

(ii) In the interim, the following reforms are recommended:

(A) Streamlining the approval process for new appointments by adopting appropriate regulation: with financial viability determined at a company and site level, standards and prices at regional level and supply requirements at site level.

(B) Updating the system of developer and water company charges and payments so that developers, appointees and incumbents pay an appropriate share for connection to the network. To ensure non-discrimination, incumbents should offer reference prices based on indicative costs.

(C) Allowing companies to specialise in the provision of upstream, infrastructure or retail services, subject to a last resort obligation.

(D) The introduction of binding common codes and systems for supply to reduce barriers to entry.

(E) Reforming the system of supply prices so that an efficient inset appointee is able to make a fair return whilst also contributing to the local incumbent's supply costs. The supply price should recognise any structural differences in incumbents' and appointees' costs.

(e) Merger Regime:

(i) Removing retail-only mergers from the special water *Merger Regime* once retail competition has been introduced.

(ii) Raising the qualifying threshold for the special water Merger Regime to a maximum of £70 million.

(iii) Introduction of a statutory duty on Ofwat to develop and publish guidance on their approach to assessing the loss of a comparator.

(iv) Introduction of a new first stage test where, based on this guidance, Ofwat should provide specific advice on a merger to the OFT which would consider that advice when considering the need for a Competition Commission reference.

(f) Innovative Capacity:

(i) Ofwat should be given a statutory duty in 2012 to promote innovation and to report to government every five years on the measures they have taken to support innovation and the effectiveness of these measures.

(ii) The creation of an industry research and development body in 2010. The body would be supported by funding, which could be of the order of £20 million per annum, which would be allocated on a competitive basis to organisations undertaking basic research, development and trialling as appropriate. This should be in addition to current spending. The fund would be open to all organisations, and water companies would be able to recover up to half their subscription from customers, at a cost of around 50 pence per annum. Any profits from patents or licences would be returned to members and, in the case of water companies, to customers and shareholders on an equal basis. In the first instance, the fund should be established for 10 years. Expenditure on research and development should be excluded from Ofwat's efficiency comparison tables.

Ofwat responded to the Cave Review final report on 25 June 2009 stating that they supported the proposed step-by-step approach to introducing its recommendations. The then Government, in its 2009 Budget Report, stated that, as part of a gradual approach to furthering competition in water markets, it intended to take forward Professor Cave's recommendations following consultation with companies, investors, and other stakeholders. In doing so, a key priority for the Government is to maintain "a regulatory system that allows companies access to appropriate finance at affordable prices".

In September 2009, Defra consulted on draft legislation recommended by the Cave Review. The consultation took forward many, but not all, of the recommendations set out in Professor Cave's final report.

The main proposals were:

(a) To introduce standard national retail competition arrangements and consult on legal separation;

(b) To replace the existing undertaker / retailer pricing arrangements under the Water Act with an Ofwat-developed access pricing method;

(c) A reduction in the eligibility threshold from 50Ml/yr to 5 Ml per year;

(d) To extend the competition regime to include sewerage services;

(e) To create separate licences for new entrant retail suppliers and providers of water to the network - Defra also propose to extend this to sewage; and

(f) To amend the special merger regime to bring it more closely in line with the normal merger regime.

Defra asked the following open questions:

(a) What are the cost and benefits of legally separating retail from the rest of the business?

(b) What are the market's views on how a "network" licence will operate?

(c) Are there measures that should be taken to help remove barriers to abstractions trading, ahead of any fundamental reform to the abstraction licensing regime?

(d) What would the benefits be of giving Ofwat a statutory duty to support innovation?

(e) What would the benefits be of creating a new national water research and development body?

The Water Act

The Water Act contained provisions aimed at increasing the opportunities for competition in the supply of water services to non-household high-volume users. The eligibility threshold for such users has been set initially at 50 megalitres per annum, though there is a mechanism to amend the threshold through secondary legislation and Defra has recently announced its intention to reduce the threshold to 5 Ml.

The Water Act introduced a system to license new water suppliers either under a "retail licence" or a "combined licence". The new licensing system commenced on 1 December 2005. A "retail licence" enables the holder to purchase water from the Regulated Company to supply to its customers through a wholesale agreement with the Regulated Company. Retail services could range from simply contracting with the customer to provide a supply and billing for the supply, to a much wider range of services including water efficiency planning, metering and providing tailored customer services. A "combined licence" is a retail licence with a supplementary authorisation to allow the holder to introduce water into the supply system ("**common carriage**") in connection with a supply to customers' premises in accordance with its retail authorisation. Such a licensee may have its own water sources or it may purchase water from a neighbouring Regulated Company to import into the "local" Regulated Company's supply system. The offset is the lesser of the estimated revenue from the adopted main or the annual borrowing costs of a hypothetical loan for the costs of providing the water main. This introduction must be done through an access agreement with the relevant Regulated Company. Before a combined licence is granted, the Secretary of State must be consulted so that the DWI can give its assessment as to the applicant's suitability to introduce water into the public supply network. Regulated Companies are excluded from holding a retail or combined licence but an associated company of a Regulated Company may do so.

Before a Regulated Company is required to provide a wholesale supply of water to a licensee in respect of customers in the Regulated Company's appointed area, certain conditions must be satisfied. Where a request is made for such a wholesale supply, the Regulated Company is under a duty to take steps to enable the supply to be made and to provide that supply in accordance with terms agreed with the supplier or determined by Ofwat, for example, connecting a new customer to the main. However, there are certain circumstances in which the duty on a Regulated Company to supply a licensee does not apply.

Equally certain conditions apply when Regulated Companies are required to allow licensees with a combined licence to introduce water to their supply systems. The duty on Regulated Companies to allow licensees to introduce water is limited to where a request is in connection with a specific supply to a customer under the licensee's retail authorisation. The Regulated Company will also be under this duty where it has agreed (outside the competition provisions in these clauses) to treat a licensee's water so that it can be introduced into the supply system and, in connection with that introduction, the licensee requests that the Regulated Company permit the licensee to then introduce water into the

supply system for the supply of its customers. The Regulated Company that receives a request to introduce water to its supply system must take steps to permit this in accordance with the terms agreed with the licensee or determined by Ofwat. Such steps may include laying a pipe to connect the licensee's treatment works with the Regulated Company's supply system. However, there are certain circumstances in which the duty on the Regulated Company to allow the licensee to introduce water to its supply system does not apply.

A licensee may seek a determination from Ofwat as to whether a refusal on the part of the Regulated Company to provide a wholesale supply or to permit water to be introduced was justified. Where the terms cannot be agreed with the Regulated Company for such an arrangement, Ofwat will determine the terms and conditions and, if the licensee agrees, these will form the contract. The charges payable by the licensee under the agreement or determination must be fixed in accordance with the costs principle.

The costs principle, as set out in section 66E of the WIA (introduced by section 56 of the Water Act), is that Regulated Companies are to recover from licensees two elements of cost to the extent that those sums exceed any financial benefits the Regulated Companies receive as a result of the licensee using the system:

(a) the direct costs of providing any wholesale supply to a licensee or permitting the introduction of water into the supply system; and

(b) an appropriate amount (the expenses which the Regulated Company would have ordinarily received from its customers if they had not been supplied by the licensee which cannot be reduced or avoided) of qualifying expenses (those incurred in performing statutory functions) together with a reasonable return on that amount.

Under the Water Act it is an offence to use a Regulated Company's system to supply the premises of a customer unless the supply is made by a Regulated Company or a licensee in pursuance of its licence. It is also an offence to introduce water into a Regulated Company's supply system except for the introduction by a licensee in pursuance of its licence or by another Regulated Company under an agreement with the Regulated Company in question or under a bulk supply agreement. The Secretary of State may, however, by statutory instrument grant exemptions to the above offences.

The Water Act also sets out a statutory framework for self-lay and adoption of water mains and service pipes including the steps to be taken and the agreement that must be entered into by a developer or self-lay organisation proposing to construct water mains or service pipes which are to be vested in the Regulated Company. It provides that the main must be built in accordance with the agreement of the Regulated Company to enable it to be adopted on completion and Regulated Companies may not connect new mains or service pipes to their public networks unless they are adopted in this way. There are certain situations, however, when appeals can be made to Ofwat if the Regulated Company refuses to enter into an adoption agreement on reasonable terms. *The Water Act* also sets out that the person who enters into the adoption agreement relating to a water main must pay the Regulated Company's reasonable costs of incorporating the water main within its existing water mains network. It also provides for an offset payment to be made by the Regulated Company to the developer or self-lay organisation equivalent to the discounted estimated sum of the water charges for the first 12 years in respect of the premises expected to be connected to the new main. In respect of self-lay and adoption of water mains, Ofwat issued a guidance note to the regulatory directors of water and sewerage companies on 17 August 2005. A third version of this guidance note was published in March 2009.

The Competition Act

The Competition Act came into force in March 2000 and introduced two prohibitions concerning anti-competitive agreements and conduct and powers of investigation and enforcement.

The Chapter I Prohibition prohibits agreements, decisions by associations of undertakings or concerted practices between undertakings which may affect trade within the UK and which have as their object or effect the prevention, restriction or distortion of competition within the UK. The Chapter II Prohibition prohibits the abuse of a dominant market position which may affect trade within the UK.

Ofwat have concurrent powers with the OFT to apply and enforce the Competition Act 1998 to deal with anti-competitive agreements or abuses of dominance relating to the water and sewerage sector, including the power to enforce directions to bring an infringement to an end and to impose fines of up to 10 per cent. of annual worldwide group-wide turnover of a Regulated Company for the infringement. In addition, any arrangement which infringes the Competition Act may be void and unenforceable and may give rise to claims for damages from third parties. A party to an anti-competitive agreement may also be able to seek relief from the other party if it was in a markedly weaker bargaining position than the other party when the contract was made or where the party seeking relief cannot bear significant responsibility for infringement of the Chapter I Prohibition.

Merger Regime

As a result of changes made by the Enterprise Act and the Water Act, the OFT has a duty to refer to the Competition Commission mergers or proposed mergers between two or more water enterprises where the value of the turnover of the water enterprise being taken over, or the value of the turnover of each of the water enterprises belonging to the person making the takeover, exceeds £10 million. In determining whether such a matter operates, or may be expected to operate, against the public interest, the Competition Commission must assess whether the merger prejudices Ofwat's ability to make comparisons between different water companies. If the Competition Commission decides there is a prejudicial outcome (i.e. that the merger has prejudiced, or may be expected to prejudice, the ability of Ofwat to make comparisons), it must decide whether action should be taken to remedy, mitigate or prevent that prejudice and, if so, what action. Remedies may be structural (total or partial prohibition of a proposed merger; total or partial divestiture of the acquired water enterprise; or divestiture of another water company held by the acquiring company) or behavioural, such as amendments to a Regulated Company's licence (for instance regarding the provision of information) or a requirement to maintain separate management. In deciding on remedies, the Competition Commission may have regard to any relevant customer benefits (in the form of lower prices, higher quality, greater choice or innovation) of the merger under consideration. The Competition Commission takes the final decision on remedial action, and this decision can be appealed to the CAT by any person sufficiently affected by the decision. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU Merger Regime although the Competition Commission may (protecting a national "legitimate interest") still investigate the effect of the merger on the ability of Ofwat to make comparisons.

The Cave review referred to above also made a number of recommendations in relation to the current special water Merger Regime. The Government may implement certain of the recommendations which could involve, among other things, removal of retail only mergers from this special water Merger Regime and an increase in the current qualifying threshold of £10m (potentially up to £70m). To bring about these changes legislative reform will be required. At present no legislative amendments have been proposed.

In cases of an acquisition of a Regulated Company by a company which is not already a Regulated Company or where the special water Merger Regime does not otherwise apply, general merger control rules apply. These may call for discussion with the OFT as well as Ofwat. The OFT has the power to investigate any merger within the jurisdiction of the United Kingdom. The OFT must refer a transaction to the Competition Commission for further investigation if the transaction could be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services. In its investigations, the OFT will consult with Ofwat.

Market Investigation Regime

The Enterprise Act contains the power for the Competition Commission to investigate markets where the OFT (or, in some circumstances, the relevant minister or Ofwat) has reasonable grounds for believing that competition in that market is not effective. The reference by the OFT, the relevant minister or Ofwat will describe the goods or services and will indicate the feature(s) that relate to such goods or services that it believes have adverse effects on competition. The Competition Commission will be responsible for remedies (which may include structural break-up). However, where there are public interest considerations, the Secretary of State may intervene and may remedy any adverse effects in the public interest.

Customers' Interests

General

Ofwat are responsible for protecting the interests of customers. They monitor the performance and level of service of Regulated Companies and the implementation of a "**guaranteed standards scheme**" in respect of customer care.

Consumer Council for Water

The Water Act introduced the CCW as a new independent consumer council for water, whose role is to provide information of use to consumers and to promote the interests of all water consumers. The CCW, which came into being on 1 October 2005, replaced WaterVoice, which had previously fulfilled a similar role. The CCW consists of a head office and four regional offices across England and one regional office in Wales. Each region has a committee headed by a Chair who is assisted by a manager and administrative staff. Each committee meets four times a year and each has approximately 10 members. The Council comprises the national Chair (currently Dame Yve Buckland), four members who chair CCW Committees, four non-executive members and the Chief Executive (currently Tony Smith). The future role of the CCW is being considered as part of the Gray Review (which reported to ministers in March 2011).

Guaranteed Standards Scheme

The guaranteed standards scheme is underpinned by regulations made under sections 38(2) to (4), 95(2) to (4) and section 213 of the WIA, which prescribe standards of performance in connection with water and sewerage services in relation to matters such as the keeping of appointments with customers, dealing with enquiries and complaints from customers, giving notice of interruption of supply, installation of meters and flooding from sewers.

If a Regulated Company does not meet any of the prescribed standards, under the guaranteed standards scheme, the customer is entitled to compensation, normally in the region of £20 for domestic customers and £20 or £50 for business customers (although, in the case of sewer flooding, it can be up to £1,000) within 10 working days of the incident. The availability of such compensation is in addition to the availability of any other remedy the customer may have.

Unfair Trading Regulations

The Unfair Trading Regulations, which came into force on 26 May 2008, introduce a general duty not to trade unfairly and seeks to ensure that traders act honestly and fairly towards their customers. It applies to both business and consumer transactions. A trader which engages in unfair commercial practices (including misleading actions or omissions; knowingly or recklessly engaging in a practice that contravenes the requirements of professional diligence; or aggressive commercial practices) commits an offence under the regulations and could be liable to a fine or imprisonment not exceeding two years.

CHAPTER 7
OVERVIEW OF THE FINANCING AGREEMENTS

Security Trust and Intercreditor Deed

General

The intercreditor arrangements in respect of the TWU Financing Group (the "**Intercreditor Arrangements**") are contained in the STID and the CTA. The Intercreditor Arrangements bind each of the Secured Creditors, the Secondary Market Guarantors (who chose to accede to the STID (as described below)) and each of the Obligors.

The Secured Creditors include the Senior Debt Providers that have entered into or acceded to the STID. Any new Authorised Credit Provider (or in respect of Bondholders, any additional Bond Trustee or in respect of the Secured TWUF Bondholders, any additional TWUF Bond Trustee) will be required to accede to the STID and the CTA. Secondary Market Guarantors may choose to accede to the STID for the purpose of the voting provisions relating to Majority Creditors but will not accede as or constitute Secured Creditors and will have no direct claim against any member of the TWU Financing Group (see the section "Secondary Market Guarantors" below).

Unsecured creditors are not and will not become parties to the Intercreditor Arrangements and, although ranking behind the Secured Creditors in an administration or other enforcement, will have unfettered, independent rights of action in respect of their debts. However, the aggregate amount of unsecured Financial Indebtedness is restricted under the CTA.

The purpose of the Intercreditor Arrangements is to regulate, among other things (i) the claims of the Secured Creditors; (ii) the exercise, acceleration and enforcement of rights by the Secured Creditors and the rights of the Secondary Market Guarantors to participate in any related vote; (iii) the rights of the Secured Creditors and the Secondary Market Guarantors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during a Standstill Period (see the section "*Standstill*" below); (v) the Entrenched Rights and the Reserved Matters of the Secured Creditors; and (vi) the giving of consents and waivers and the making of modifications to the Finance Documents.

The Intercreditor Arrangements also provide for the ranking in point of payment of the claims of the Secured Creditors, both before and after any enforcement of the Security, and for the subordination of all claims among the TWU Financing Group (other than claims in respect of the Issuer/TWUL Loan Agreements and the TWUF/TWUL Loan Agreement funded through the raising of Senior Debt). Each Secured Creditor (other than the Security Trustee acting in such capacity) and each Obligor has given certain undertakings in the STID which serve to maintain the integrity of these arrangements.

Secondary Market Guarantors

Any Eligible Secondary Market Guarantor that has entered into secondary market financial guarantee arrangements in respect of any Class A Unwrapped Bonds or any Secured TWUF Bonds and that wishes to become a Class A DIG Representative in respect of such Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds may deliver a notice to the Security Trustee and, in the case of Class A Unwrapped Bonds, the Bond Trustee or, in the case of Secured TWUF Bonds, the relevant TWUF Bond Trustee (an "**FG Covered Bond Notice**") in accordance with the terms of, and in the form scheduled to, the STID. An FG Covered Bond Notice must contain (i) a representation from the Eligible Secondary Market Guarantor that it is an Eligible Secondary Market Guarantor; and (ii) a certification from such Eligible Secondary Market Guarantor that, pursuant to the secondary market financial guarantee arrangements that it has entered into with a Class A Unwrapped Bondholder or, as the case may be, a Secured TWUF Bondholder, it is authorised to vote under proxy or, as the case may be, direct the vote in respect of Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds (together with a certification of the Outstanding Principal Amount of such Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds as at the date of the FG Covered Bond Notice). Upon the delivery of an FG Covered Bond Notice to the Security Trustee and the Bond Trustee or, as the case may be, the relevant TWUF Bond Trustee, the relevant Eligible Secondary Market Guarantor will be required to accede to the STID as a "**Secondary Market Guarantor**" for the purposes of the voting mechanisms described below. The STID will contain a covenant from each Secondary Market

Guarantor that it will notify the Security Trustee and, in the case of Class A Unwrapped Bonds, the Bond Trustee or, in the case of Secured TWUF Bonds, the relevant TWUF Bond Trustee in writing in the event that its authorisation to vote under proxy or, as the case may be, direct the vote in respect of any Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds pursuant to the secondary market financial guarantee arrangements is revoked or no longer valid (a "**Notice of Disenfranchisement**"). In the absence of any Notice of Disenfranchisement in respect of a Secondary Market Guarantor, the Security Trustee and the Bond Trustee or, as the case may be, the relevant TWUF Bond Trustee will be entitled to assume that such Secondary Market Guarantor is authorised to vote in respect of the Class A Debt Instructing Group (as described below). Any Class A Unwrapped Bonds in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (provided that such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor) will constitute "Class A FG Covered Bonds" and any Secured TWUF Bonds in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (provided that such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor) will constitute "**Secured TWUF FG Covered Bonds**").

FGIC UK Limited, a private limited company incorporated in England and Wales whose registered office is 3rd Floor, 11 Old Jewry, London EC2R 8DU acceded as a Secondary Market Guarantor in accordance with the procedures set out above on 5 September 2007 in respect of certain of the Bonds issued on the Initial Issue Date.

Modifications, Consents and Waivers

Subject to Entrenched Rights and Reserved Matters (which will always require the consent of all of the relevant Secured Creditors who are affected) (see the section "*Entrenched Rights and Reserved Matters*" below), the Security Trustee shall only agree to any modification of or grant any consent or waiver under the Finance Documents or (subject to restrictions during a Standstill Period) take Enforcement Action with the consent of or if so instructed by the Majority Creditors.

Subject to the Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" below), the Security Trustee may make modifications to the Finance Documents without the consent of any other Secured Creditor or any Secondary Market Guarantor if, in the opinion of the Security Trustee, such modifications are to correct manifest or proven errors, to comply with mandatory provisions of law or are of a formal, minor or technical nature.

Class A Debt Instructing Group

Both prior to and during any Standstill Period, after acceleration of the Secured Liabilities and upon any enforcement of the Security prior to repayment in full of the Class A Debt, only the Class A DIG Representatives voting in respect of the Outstanding Principal Amount of Qualifying Class A Debt that they represent will be eligible to exercise the rights of the Majority Creditors. Decisions of the Majority Creditors will bind all of the Secured Creditors and Secondary Market Guarantors in all circumstances, save for certain Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" below).

The Class A DIG Representatives, which are together entitled to vote on certain proposals as part of the "**Class A Debt Instructing Group**" or the "**Class A DIG**", are comprised of the following representatives (each, a "**Class A DIG Representative**") of Qualifying Class A Debt:

(a) in respect of each Sub-Class of Class A Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), the Financial Guarantor of such Sub-Class of Class A Wrapped Bonds;

(b) in respect of each Sub-Class of Class A Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds) and each Sub-Class of Class A Unwrapped Bonds (excluding any Class A FG Covered Bonds (unless a Default Situation is subsisting)), the Bond Trustee;

(c) in respect of the Secured TWUF Bonds (excluding any Secured TWUF FG Covered Bonds

(unless a Default Situation is subsisting)), the relevant TWUF Bond Trustee;

(d) in respect of each Class A FG Covered Bond and each Secured TWUF FG Covered Bond, the Secondary Market Guarantor in respect of such Class A FG Covered Bond or, as the case may be, Secured TWUF FG Covered Bond (unless a Default Situation is subsisting);

(e) in respect of the Credit Facility, the Credit Facility Agent;

(f) in respect of the Existing Authorised Credit Facilities, the Existing Authorised Credit Provider;

(g) in respect of each Finance Lease, the relevant Finance Lessor;

(h) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (g) above (excluding liabilities in respect of any Hedging Agreements or Liquidity Facilities) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the STID or the relevant Accession Memorandum to the STID and the CTA as the Class A DIG Representative.

Other Secured Creditors of Class A Debt that have acceded or will accede to the STID and the CTA after the Initial Issue Date may appoint their own representative to act as their Class A DIG Representative.

Each Class A DIG Representative will be required to provide an indemnity to the Security Trustee each time it votes as part of the Class A DIG irrespective of whether it is a Majority Creditor.

Unless a Default Situation has occurred and is continuing and no Emergency Instruction Notice has been served (see the section "*Emergency Instruction Procedure*" below), (i) the Bond Trustee shall not be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class A DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class; and (ii) no TWUF Bond Trustee shall be entitled to convene a meeting of any class of Secured TWUF Bonds to consider any proposal to be voted on by the Class A DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Secured TWUF Bonds.

In respect of:

(a) any proposal that is the subject of an Entrenched Right or Reserved Matter in favour of the Bondholders; or

(b) any proposal following the occurrence of a Default Situation and for so long as a Default Situation is continuing,

a Secondary Market Guarantor will not form part of the Class A DIG and (i) the Class A DIG Representative in respect of all Class A Unwrapped Bonds (including Class A FG Covered Bonds) will be the Bond Trustee who will be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any such proposal; and (ii) the Class A DIG Representative in respect of the Secured TWUF Bonds (including Secured TWUF FG Covered Bonds) will be the relevant TWUF Bond Trustee who will be entitled to convene a meeting of any class of Secured TWUF Bonds to consider any such proposal.

Decisions of the Majority Creditors will be determined by votes on a "pound for pound" basis (based on the Outstanding Principal Amount of the Qualifying Class A Debt voted by the Class A DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class A DIG Representatives which have actually voted by the specified date for voting, which date must be not less than 10 Business Days (or in certain circumstances five Business Days) after the date the STID Directions Request is deemed to be given (or, where the Bond Trustee is a Class A DIG Representative and a Default Situation is continuing (subject to the *Emergency Instruction Procedure* - see the section "*Emergency Instruction*

Procedure" below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class A DIG Representatives in respect of more than 50 per cent. of the Qualifying Class A Debt have voted in favour of the relevant proposal.

Class B Debt Instructing Group

Following repayment in full of the Class A Debt, the Class B DIG Representatives voting in respect of the Outstanding Principal Amount of Qualifying Class B Debt that they represent will be eligible to exercise the rights of the Majority Creditors. After repayment in full of the Class A Debt, decisions of such Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters that are fundamental to particular Secured Creditors. See the section "Entrenched Rights and Reserved Matters" below.

The providers of Qualifying Class B Debt will exercise their rights through a group of representatives which will together be entitled to vote on certain proposals as part of the "**Class B Debt Instructing Group**" or the "**Class B DIG**". The Class B DIG will be comprised of the following representatives (each, a "**Class B DIG Representative**") of Qualifying Class B Debt:

(a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), such Financial Guarantor;

(b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Class B Wrapped Bonds) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; and

(c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (b) above (excluding liabilities in respect of any Hedging Agreements or Liquidity Facilities) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum to the STID as the Class B DIG Representative.

Each Class B DIG Representative is required to provide an indemnity to the Security Trustee each time it votes as part of the Class B DIG irrespective of whether it is a Majority Creditor.

Secondary Market Guarantors will not participate in the Class B DIG.

Unless a Default Situation has occurred and no Emergency Instruction Notice has been served (see the section "*Emergency Instruction Procedure*" below) and is continuing, the Bond Trustee is not entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class B DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class.

Decisions of the Majority Creditors will be determined by votes on a pound for pound basis (based on the Outstanding Principal Amount of the Qualifying Class B Debt voted by the Class B DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class B DIG Representatives which have actually voted by the specified date for voting, which date must be not less than 10 Business Days (or in certain circumstances five Business Days) after the date the STID Directions Request is deemed to be given (or, where the Bond Trustee is a Class B DIG Representative and a Default Situation is continuing (subject to the *Emergency Instruction Procedure* - see the section "*Emergency Instruction Procedure*" below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class B DIG Representatives in respect of more than 50 per cent. of the Qualifying Class B Debt have voted in favour of the relevant proposal.

Voting by the Bond Trustee as DIG Representative of the Bondholders and the TWUF Bond Trustees as DIG Representatives of the Secured TWUF Bondholders

Where the Bond Trustee acts as the DIG Representative of some or all of the Wrapped Bondholders (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of those Wrapped Bonds) and/ or the Unwrapped Bondholders, the Bond Trustee may, both prior to a Default Situation and/or whilst a Default Situation is continuing, in its absolute discretion, vote on a STID Proposal or a DIG Proposal (without reference to any Bondholders) in respect of the aggregate Outstanding Principal Amount of some or all of such Sub-Classes of Bonds (excluding, prior to a Default Situation, any Class A FG Covered Bonds), but shall not, prior to a Default Situation, be entitled to convene a meeting of any Series, Class or Sub-Class of Bondholders to seek directions (except in respect of an Entrenched Right or Reserved Matter of such Series, Class or Sub-Class of Bondholders).

Additionally whilst a Default Situation is continuing, where the Bond Trustee acts as the DIG Representative in respect of Bonds, the Bond Trustee shall not be entitled to convene a meeting of the Bondholders to direct the Security Trustee by way of an Extraordinary Resolution of the relevant Sub-Class of Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See the section "*Emergency Instruction Procedure*" below.

Similarly, where the relevant TWUF Bond Trustee acts as the DIG Representative of some or all of the Secured TWUF Bondholders, the relevant TWUF Bond Trustee may, both prior to a Default Situation and/or whilst a Default Situation is continuing, in its absolute discretion, vote on a STID Proposal or a DIG Proposal (without reference to any Secured TWUF Bondholders) in respect of the aggregate Outstanding Principal Amount of some or all of such Secured TWUF Bonds (excluding, prior to a Default Situation, any Secured TWUF FG Covered Bonds), but shall not, prior to a Default Situation, be entitled to convene a meeting of any class of Secured TWUF Bondholders to seek directions (except in respect of an Entrenched Right or Reserved Matter of such Secured TWUF Bondholders).

Additionally whilst a Default Situation is continuing, where the relevant TWUF Bond Trustee acts as the DIG Representative in respect of Secured TWUF Bonds, the relevant TWUF Bond Trustee shall not be entitled to convene a meeting of the Secured TWUF Bondholders to direct the Security Trustee in accordance with an Extraordinary Resolution of the relevant class of Secured TWUF Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See the section "*Emergency Instruction Procedure*" below.

Emergency Instruction Procedure

During a Default Situation, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee or the relevant TWUF Bond Trustee to convene Bondholder or Secured TWUF Bondholder meetings. To cater for such circumstances, the Intercreditor Arrangements provide for an *Emergency Instruction Procedure* (the "**Emergency Instruction Procedure**") which is subject to Entrenched Rights and Reserved Matters. The Security Trustee will be required to act upon instructions contained in an emergency instruction notice (an "**Emergency Instruction Notice**"). An Emergency Instruction Notice must be signed by DIG Representatives (provided that, any Secondary Market Guarantor in respect of Class A FG Covered Bonds or Secured TWUF FG Covered Bonds shall constitute the DIG Representative for the *Emergency Instruction Procedure* despite a Default Situation subsisting) (the "**EIN Signatories**") representing 662/3 per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt (or following the repayment in full of the Class A Debt, the Qualifying Class B Debt) after excluding the proportion of Qualifying Debt in respect of which the Bond Trustee or, as the case may be, the relevant TWUF Bond Trustee is the DIG Representative and in respect of which the Bond Trustee or, as the case may be, the relevant TWUF Bond Trustee in its absolute discretion has not voted. The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take and must certify that in each of the EIN Signatories' reasonable opinion, unless such action is taken within the timeframe specified in the Emergency Instruction Notice, the interests of the EIN Signatories would be materially prejudiced.

Hedge Counterparties

Each Hedge Counterparty is or will be a Secured Creditor party to the STID and the CTA and each Hedging Agreement to hedge the currency of any Class A Debt or to hedge interest rates constitutes or will constitute Class A Debt or, if entered into to hedge the currency of any Class B Debt, Class B Debt.

The Hedge Counterparties will not form part of the Class A DIG or the Class B DIG. However, except in relation to certain amounts payable by the Issuer and/or TWUF and/or TWUL under any Currency Hedging Agreement in relation to Class B Debt, all fees, interest and principal payable by the Issuer and/or TWUF and/or TWUL (as the case may be) to the Hedge Counterparties will rank in the Payment Priorities senior to or *pari passu* with interest or principal payments on the Class A Bonds. See the sections "*Cash Management*" and "*Hedging Agreements*" below.

Liquidity Facility Providers

Each Liquidity Facility Provider is or will be a Secured Creditor party to the STID and the CTA and each Liquidity Facility Agreement constitutes or will constitute Class A Debt.

The Liquidity Facility Providers will not form part of the Class A DIG. However, fees, interest and principal payable to the Liquidity Facility Providers will rank in the Payment Priorities senior to interest and principal payments on the Class A Bonds. See the sections "*Cash Management*" and "*The Liquidity Facilities*" below.

Finance Lessors

Each Finance Lessor is or will be a Secured Creditor party to the STID and all amounts arising under the Finance Leases will constitute Class A Debt.

Authorised Credit Providers

The Existing Authorised Credit Provider and the Credit Facility Providers do or will constitute Class A Debt Providers and will form part of the Class A DIG.

Standstill

The STID provides for an automatic standstill of the claims of the Secured Creditors against TWUL, TWUF and the Issuer (the "**Standstill**") immediately following notification to the Security Trustee of an Event of Default (other than an Event of Default under any Hedging Agreement with respect to a Hedge Counterparty under such Hedging Agreement) and for so long as any Senior Debt is outstanding.

The Standstill is designed to reduce or postpone the likelihood of a Special Administration Order being made against TWUL.

During the Standstill Period:

(a) (other than as set out in (b) below and in respect of certain limited terminations or prepayment events) none of the Secured Creditors (or the Secondary Market Guarantors) will be entitled to give any instructions to the Security Trustee to take any Enforcement Action (but without prejudice to the ability of the Secured Creditors to demand payment) in relation to all or any part of the Security granted by the Issuer, TWUF or TWUL;

(b) the Security granted by TWH may be enforced at any time by the Security Trustee at the direction of the Majority Creditors;

(c) save as provided in sub-paragraphs (a) and (b) above, no Enforcement Action may be taken by any Secured Creditor; and

(d) any monies received by TWUL, TWUF or the Issuer will be applied in accordance with the cash management provisions contained in the CTA (see the section "*Cash Management*" below) and in accordance with the Payments Priorities (see the section "*Cash Management - Debt Service Payment Account*" below).

The period of the Standstill in respect of any Event of Default relating to TWUL and/or TWUF and/or the Issuer (the "**Standstill Period**") will be 18 months unless the Standstill Period is automatically extended beyond 18 months (see the section "*Standstill Extension*" below) or any of the following occur prior to the expiry of the relevant Standstill Period:

(a) an order is made for the Special Administration of TWUL or any steps are taken to commence insolvency proceedings against the Issuer, TWUF or TWUL other than proceedings that are commenced by the Security Trustee;

(b) (during the first 18 months of the Standstill Period) Class A DIG Representatives in respect of $66^2/_3$ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Class A Debt) Class B DIG Representatives in respect of $66^2/_3$ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class B Debt vote to terminate the Standstill Period (see the section "Standstill Extension" below); or

(c) the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period.

The occurrence of a Standstill will not of itself prevent the Issuer or TWUF drawing under the Liquidity Facilities.

Upon termination of a Standstill Period (except by virtue of the matters referred to in (c) above), each Secured Creditor will be entitled to exercise all rights which may be available to it under any Finance Document (other than any Security Document) to which it is a party including directing the Security Trustee to take Enforcement Action.

Standstill Extension

The Standstill Period shall automatically be extended beyond 18 months:

(a) for a further 120 days unless Class A DIG Representatives in respect of 50 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 120 day period to terminate the Standstill Period;

(b) following the period referred to in sub-paragraph (a), for a further 60 days unless Class A DIG Representatives in respect of $33^1/_3$ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 60 day period to terminate the Standstill Period; and

(c) following the period referred to in sub-paragraph (b), for successive periods each of 60 days unless Class A DIG Representatives in respect of 10 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during each such further 60 day period to terminate the Standstill Period and a vote shall be taken of the relevant Class A DIG Representatives on the expiry of each subsequent period of 60 days for so long as the Standstill Period continues as to whether the Standstill Period should continue for a further period of 60 days.

The Bond Trustee shall not form part of the Class A DIG in respect of any vote to terminate the Standstill Period, unless directed or requested to vote in such manner (i) by an Extraordinary Resolution of the relevant Sub-Class of Class A Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of such Sub-Class of Wrapped Bonds) or Class A Unwrapped Bonds or (ii) in writing by Bondholders holding not less than 25 per cent. of the Outstanding Principal Amount of the relevant Sub-Class of Class A Wrapped

Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of such Sub-Class of Wrapped Bonds) or Class A Unwrapped Bonds.

When the Class A Debt has been fully repaid, the rights to terminate the Standstill Period as described above shall be vested in the Class B DIG Representatives.

The Standstill Period in respect of any Event of Default will terminate upon the date of the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period.

Enforcement

Following an Event of Default and for so long as it is continuing, the Majority Creditors may direct the Security Trustee to enforce the Security created by TWH; following the termination of a Standstill Period (except under (c) of "*Standstill*" above), the Majority Creditors may direct the Security Trustee to enforce the Security created by TWUL, TWUF and the Issuer.

Subject to certain matters and to certain exceptions, following an enforcement, any proceeds of enforcement or other monies held by the Security Trustee under the STID (excluding monies credited to the Excluded Accounts) will be applied by the Security Trustee in accordance with the Payment Priorities (see the section "Debt Service Payment Account" below).

Excluded Accounts

Although pursuant to the Security Agreement, TWUL, the Issuer and TWUF created first fixed charges over the Excluded Accounts in favour of the Security Trustee, the Security Documents provide that on and following an Acceleration of Liabilities (other than a Permitted Lease Termination, Permitted Hedge Termination, Permitted EIB Compulsory Prepayment Event or Permitted Share Pledge Acceleration), all monies held in any Swap Collateral Account, the Issuer's O&M Reserve Account and the Debt Service Reserve Accounts will be held by the Security Trustee on trust for the relevant Hedge Counterparty or guarantor thereof that has provided collateral for its obligations or, as the case may be, the relevant Liquidity Facility Providers whose commitments have been drawn to fund the Issuer's O&M Reserve Account or, as the case may be, the Debt Service Reserve Accounts and in the proportions that their respective drawn amounts under the relevant O&M Reserve Facility Agreement or, as the case may be, DSR Liquidity Facility Agreements bear to the balance on the O&M Reserve Account or, as the case may be, the Debt Service Reserve Accounts.

Accession of Additional Secured Creditors

The STID requires that, to the extent that TWUL and/or the Issuer wishes any Authorised Credit Provider (or, in respect of Bonds, its Secured Creditor Representative) or other person to obtain the benefit of the Security, such Authorised Credit Provider or other person (other than Bondholders) must sign an Accession Memorandum whereby it agrees to be bound by the terms of the STID and the CTA, including those provisions which prohibit individual Secured Creditors from taking action without the consent of the Majority Creditors.

Entrenched Rights and Reserved Matters

Modifications, consents and waivers will be agreed by the Security Trustee, in accordance with votes of the Majority Creditors, subject to Entrenched Rights and Reserved Matters. Such modifications, consents and waivers will be binding on all of the Secured Creditors and Secondary Market Guarantors, subject to Entrenched Rights and Reserved Matters. No Entrenched Right or Reserved Matter will operate to override the provisions contained in the CTA which allow TWUL (following a Periodic Review or as a result of any material change in the regulation of the water industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default *provided that* the Security Trustee (acting on the instructions of the Majority Creditors) agree and the relevant ratings set out in definition of Rating Requirement (in relation to the Bonds) have been affirmed by all Rating Agencies then rating the Bonds.

Lists of Entrenched Rights and Reserved Matters are contained in the section "*Entrenched Rights*" and "*Reserved Matters*", below.

Entrenched Rights

Entrenched Rights are rights that cannot be modified or waived in accordance with the STID without the consent of the Secured Creditor having the Entrenched Right.

The Entrenched Rights of the Class A Debt Providers will include any proposed modification to, or consent or waiver under or in respect of the STID or any other Finance Document which:

(a) the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities under or in connection with the STID or any other Finance Document;

(b) (i) would release any of the Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document or (ii) would alter the rights of priority of, or the enforcement by, the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein;

(c) would change or would relate to the Payment Priorities;

(d) would change or would relate to the Entrenched Rights or the Reserved Matters or, where applicable, the relevant Class A Debt Provider's Entrenched Rights or Reserved Matters;

(e) would change or would relate to (i) the definitions of "Class A DIG", "Class A DIG Representatives", "Class A FG Covered Bond", "DIG Proposal", "DIG Directions Request", "Majority Creditors", "Qualifying Class A Debt", "Restricted Payment", "Restricted Payment Condition", "Secondary Market Guarantor", "Secured TWUF FG Covered Bond" or "Voted Qualifying Class A Debt", (ii) those matters expressly requiring the consent, approval or agreement of, or directions or instructions from, or waiver by the Majority Creditors or the Security Trustee, (iii) the percentages of aggregate Outstanding Principal Amount of Qualifying Class A Debt required to terminate a Standstill or (iv) in the case of the Existing Authorised Credit Provider, the definitions of "Existing Authorised Credit Facilities", "Existing Authorised Credit Finance Contracts", "EIB Amendment Agreement" or "Permitted EIB Compulsory Prepayment Event";

(f) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Class A Debt Provider's Class A Debt or of any fees or premia in respect thereof or would reduce the amount of principal, interest or Make-Whole Amount payable in respect of such Class A Debt or the amount of any fees or premia in respect thereof;

(g) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof or would increase the amount of principal, interest or Make-Whole Amount payable on any date in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof;

(h) would result in the exchange of the relevant Class A Debt Provider's Class A Debt for, or the conversion of such Class A Debt into, shares, bonds or other obligations of any other person;

(i) would change or would relate to the currency of payment due under the relevant Class A Debt Provider's Class A Debt (other than due to the United Kingdom joining the euro);

(j) (subject to (k) below) would change any Event of Default or any Trigger Event relating to financial ratios (excluding any change permitted by the CTA following a Periodic Review or any material change in the regulation of the water and sewerage industry in the United Kingdom (see the section "*Common Terms Agreement - General*" below));

(k) would relate to the waiver of the non-payment Event of Default in respect of any Obligor or Events of Default or Trigger Events relating to non-payment or financial ratios or the making of Restricted Payments (see the section "*Common Terms Agreement*" under "*Trigger Events*" and "*Events of Default*" below);

(l) would change or would relate to the rights of the relevant Class A Debt Provider to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, Taxes, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class A Debt Provider); or

(m) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Class A Debt Provider's Class A Debt in the event of the imposition of withholding taxes.

The Entrenched Rights of the Class B Debt Providers mirror those rights applicable for Class A Debt Providers *mutatis mutandis* and more specifically will include any proposed modification to, or consent or waiver under or in respect of the STID or any other Finance Document which:

(a) the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities under or in connection with the STID or any other Finance Document;

(b) (i) would release any of the Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document or (ii) would alter the rights of priority of, or the enforcement by, the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein;

(c) would change or would relate to the Payment Priorities;

(d) would change or would relate to the Entrenched Rights or the Reserved Matters or, where applicable, the relevant Class B Debt Provider's Entrenched Rights or Reserved Matters;

(e) would change or would relate to (i) the definitions of "Class B DIG", "Class B DIG Representatives", "DIG Proposal", "DIG Directions Request", "Majority Creditors", "Qualifying Class B Debt", "Restricted Payment", "Restricted Payment Condition", or "Voted Qualifying Class B Debt", (ii) those matters expressly requiring the consent, approval or agreement of, or directions or instructions from, or waiver by the Majority Creditors or the Security Trustee or (iii) the percentages of aggregate Outstanding Principal Amount of Qualifying Class B Debt required to terminate a Standstill;

(f) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Class B Debt Provider's Class B Debt or of any fees or premia in respect thereof or would reduce the amount of principal, interest or Make-Whole Amount payable in respect of such Class B Debt or the amount of any fees or premia in respect thereof;

(g) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of Class B Debt or Class A Debt or any fees or premia in respect thereof or would increase the amount of principal, interest or Make-Whole Amount payable on any date in respect of Class B Debt or Class A Debt or any fees or premia in respect thereof;

(h) would result in the exchange of the relevant Class B Debt Provider's Class B Debt for, or the conversion of such Class B Debt into, shares, bonds or other obligations of any other person;

(i) would change or would relate to the currency of payment due under the relevant Class B Debt Provider's Class B Debt (other than due to the United Kingdom joining the euro);

(j) (subject to (k) below) would change any Event of Default or any Trigger Event relating to financial ratios (excluding any change permitted by the CTA following a Periodic Review or any material change in the regulation of the water and sewerage industry in the United Kingdom (see the section "*Common Terms Agreement - General*" below));

(k) would relate to the waiver of the non-payment Event of Default in respect of any Obligor or Events of Default or Trigger Events relating to non-payment or financial ratios or the making of Restricted Payments (see the section "*Common Terms Agreement*" under "*Trigger Events*" and "*Events of Default*" below);

(l) would change or would relate to the rights of the relevant Class B Debt Provider to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, Taxes, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class B Debt Provider); or

(m) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Class B Debt Provider's Class B Debt in the event of the imposition of withholding taxes.

The Bond Trustee, the Security Trustee, the TWUF Bond Trustee, the Finance Lessors, the Hedge Counterparties and the Financial Guarantors will have certain other limited Entrenched Rights in relation to any provisions of the Finance Documents that generally affect them to a greater extent than others.

Reserved Matters

Reserved Matters are matters which, subject to the Intercreditor Arrangements and the CTA, a Secured Creditor is free to exercise in accordance with its own facility arrangements and so are not exercisable by or by direction of the Majority Creditors.

Those Reserved Matters which each Secured Creditor reserves to itself to decide are each and every right, power, authority and discretion of, or exercisable by, each such Secured Creditor at any time:

(a) to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, damages, proceedings, claims and demands in relation to any Authorised Credit Facility or Finance Document to which it is a party (as permitted under the CTA);

(b) to make determinations of and require the making of payments due and payable to it under the provisions of the Authorised Credit Facilities or Finance Document to which it is a party (as permitted under the CTA);

(c) to exercise the rights vested in it or permitted to be exercised by it under and pursuant to the CTA and the STID;

(d) to receive notices, certificates, communications or other documents or information under the Finance Documents or otherwise;

(e) to assign its rights or transfer any of its rights and obligations under any Authorised Credit Facility or Finance Document subject always to the requirement of the assignee or transferee to accede to the CTA and the STID as a Secured Creditor;

(f) in the case of each Finance Lessor, to inspect the relevant Equipment, to make calculations under the financial schedules (or equivalent provisions thereunder relating to the calculations of Rental or termination sums) to the relevant Finance Lease and to terminate the relevant Finance Lease provided such termination is a Permitted Lease Termination;

(g) in the case of the Existing Authorised Credit Provider, to demand for prepayment under an Existing Authorised Credit Facility provided that such demand is a Permitted EIB Compulsory Prepayment Event;

(h) in the case of each Hedge Counterparty, to terminate the relevant Hedging Agreement provided such termination is a Permitted Hedge Termination; and

(i) in the case of any Secured Creditor, to accelerate their claims, to the extent necessary to apply proceeds of enforcement of the Share Pledge provided by TWH pursuant to the terms of the Security Documents.

The Bond Trustee, the Security Trustee, the TWUF Bond Trustee, the Hedge Counterparties and the Financial Guarantors each have certain additional Reserved Matters which each has reserved to itself to decide. For the Bond Trustee and each Financial Guarantor, these include rights vested in it pursuant to the terms of the Bond Trust Deed and the Financial Guarantee. For the Security Trustee, these include rights vested in it pursuant to the terms of the STID.

Substitution of the Issuer

The Security Trustee shall implement any STID Proposal proposing the substitution in place of the Issuer, or any substituted Issuer, as the principal debtor under the Finance Documents of any other company incorporated in any other jurisdiction meeting the criteria for such a single purpose company established from time to time by the Rating Agencies. The implementation of any such proposal is an Entrenched Right of the Bond Trustee and each Financial Guarantor.

Intercompany Loan Arrangements

Issuer/TWUL Loan Agreements and the TWUF/TWUL Loan Agreements

All Financial Indebtedness raised by the Issuer from time to time (whether through the issue of Bonds or raising of debt under Authorised Credit Facilities) is and will be backed by an aggregate nominal amount of debt owed by TWUL to the Issuer under a loan agreement (each an "**Issuer/TWUL Loan Agreement**"). The Issuer/TWUL Loan Agreements have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Bonds. The Financial Indebtedness of TWUF (as at the date hereof, having been incurred through the issue of the TWUF Bonds on their respective issue dates) from time to time (including under the DSR Liquidity Facilities (other than amounts necessary to fund the Debt Service Reserve Accounts) and any other Authorised Credit Facilities) is and will be backed by an aggregate matching debt obligation owed by TWUL to TWUF under a loan agreement (each a "**TWUF/TWUL Loan Agreement**"). The advances under the initial TWUF/TWUL Loan Agreement entered into on the Initial Issue Date (the "**Initial TWUF/TWUL Loan Agreement**") relate to the principal amount of the relevant class of TWUF Bonds outstanding as at the Initial Issue Date, whilst any other Financial Indebtedness of TWUF raised from time to time under any Authorised Credit Facilities will be advanced by TWUF under a further TWUF/TWUL Loan Agreement.

The proceeds of all Financial Indebtedness raised by the Issuer after the Initial Issue Date through the further issue of Bonds or raising of debt under any Authorised Credit Facility (other than amounts necessary to fund the Debt Service Reserve Accounts) have been and will be lent to TWUL under further Issuer/TWUL Loan Agreements.

All advances made or to be made by the Issuer under the Issuer/TWUL Loan Agreements and by TWUF under the TWUF/TWUL Loan Agreements are or will be in amounts and at rates of interest set out in the relevant Final Terms or Authorised Credit Facility or, if hedged by the Issuer or TWUF in accordance with the Hedging Policy (see the section "*Hedging*" below), at the hedged rate plus, in each case (other than advances by TWUF in respect of the outstanding principal amount of the TWUF Bonds), a small margin and have or will have interest payment dates and repayment dates on the same dates as the related Bonds or advance under the relevant Authorised Credit Facility.

The obligations of TWUL under each Issuer/TWUL Loan Agreement and under each TWUF/TWUL Loan Agreement are or will be secured pursuant to the Security Agreement, and such obligations are or

will be guaranteed by TWH in favour of the Security Trustee, who will hold the benefit of such security on trust for the Secured Creditors (including the Issuer and TWUF) on the terms of the STID.

The Issuer's obligations to repay principal and pay interest on the Bonds are intended to be met primarily from the payments of principal and interest received from TWUL under each Issuer/TWUL Loan Agreement and, where it has hedged its exposure to such payments under a Hedging Agreement, from payments received by the Issuer under such Hedging Agreement.

TWUL agrees to make payments to each of the Issuer and TWUF free and clear of any withholding on account of tax unless it is required by law to do so. In such circumstances TWUL will gross-up such payments.

In the CTA, TWUL makes certain representations and warranties (as more fully set out under "*Common Terms Agreement* - Representations" below) to each Finance Party.

Each Issuer/TWUL Loan Agreement and each TWUF/TWUL Loan Agreement is or will be governed by English law.

Fees Generally

The Issuer is responsible for paying the properly incurred fees and expenses of, amongst others, the Bond Trustee, the Paying Agents, the Registrar, the Transfer Agents, the Agent Bank, the Co-Arrangers and the Trustee's legal advisers, the Issuer's legal advisers and certain fees due to liquidity providers. On the Initial Issue Date, TWUL paid to the Issuer an amount equal to the upfront fees and expenses of the foregoing and certain other fees payable by the Issuer in connection with the establishment of the Programme and the issue of the Bonds on the Initial Issue Date.

TWUL is responsible for paying the fees and expenses of the Security Trustee together with other Secured Creditors.

In respect of the period after the Initial Issue Date, TWUL will, by way of facility fees under the Issuer/TWUL Loan Agreements, pay to the Issuer amounts equal to the amounts required by the Issuer to pay its ongoing fees, expenses and any and all sums due to any Financial Guarantor under the Finance Documents. Similarly, TWUL will pay to TWUF the amounts required by TWUF to pay its ongoing fees and expenses under the TWUF Bonds by way of facility fees under the TWUF/TWUL Loan Agreements.

Common Terms Agreement

General

Each of the Existing Finance Lessors, the Existing Hedge Counterparties, the Security Trustee, the Cash Manager, the Standstill Cash Manager, the Liquidity Facility Providers, the Credit Facility Providers, the Existing Authorised Credit Provider, each Obligor, the Bond Trustee, the TWUF Bond Trustee, the Principal Paying Agent, the Transfer Agent, the Registrar and others have entered into a *Common Terms Agreement* (the "**Common Terms Agreement**" or "**CTA**"). The CTA sets out the representations, covenants (positive, negative and financial), Trigger Events and Events of Default which apply to each Authorised Credit Facility (including for the avoidance of doubt the Issuer/TWUL Loan Agreements, the TWUF/TWUL Loan Agreements, the Existing Finance Leases, the Existing Authorised Credit Facilities, the Hedging Agreements and any other document entered into in connection with an Authorised Credit Facility).

It is a term of the CTA that any representation, covenant (to the extent of being able to declare an Event of Default), Trigger Event and Events of Default contained in any document which is in addition to those in the CTA and any other Common Agreement and any other exception expressly set out in the CTA will be unenforceable (save for limited exceptions which will, among other things, include covenants relating to indemnities, covenants to pay, covenants relating to remuneration, costs and expenses, representations and covenants in each Class or Sub-Class of Bonds and certain provisions under the Hedging Agreements and the Finance Leases). The CTA further provides that no representation, covenant, Trigger Event or Event of Default will be breached or triggered as a result of

the Permitted Post Closing Events (including, but not limited to, the payments of all amounts outstanding under the bridge facility agreement, certain transaction fees not paid on the Initial Issue Date (if applicable) and any other payments as may be agreed by TWUL and the Security Trustee in writing).

The CTA allows TWUL (following a Periodic Review or any material change in the regulation of the water and sewerage industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default, **provided that** the Security Trustee (acting on the instructions of the Majority Creditors) agrees and the relevant ratings set out in the definition of Rating Requirement (in relation to the Bonds) have been affirmed by all Rating Agencies then rating the Bonds.

The CTA also sets out the cash management arrangements to apply to the TWU Financing Group (see the section "*Cash Management*" below). It is a requirement of the CTA that future providers of Authorised Credit Facilities must also accede to the CTA and the STID.

A summary of the representations, covenants, Trigger Events and Events of Default included in the CTA is set out below.

Representations

On the Initial Issue Date (and in respect of certain representations, on each Issue Date and each date on which any Financial Guarantee or any other new Authorised Credit Facility is issued or entered into under the Programme and only in relation to such Bonds, Financial Guarantee or Authorised Credit Facility (as applicable), and in respect of certain representations, on each Payment Date, each date of a request for a borrowing, the first date of each borrowing and each date for payment of a Restricted Payment), each Obligor made (or, as the case may be, will make) a number of representations in respect of itself to each Finance Party. These representations are or will be subject, in some cases, to agreed exceptions (including, where applicable, the Existing Non-Compliances, but not in a way which would imply that such Existing Non-Compliance would have a Material Adverse Effect), customary qualifications and to qualifications as to materiality and reservations of law, and will include representations as to:

(a) its corporate status, power and authority and certain other legal matters;

(b) non-conflict with documents binding on it, constitutional documents or laws;

(c) no event having occurred or circumstance having arisen since the date of the last financial statements which has a Material Adverse Effect (except for any announcement of K from time to time);

(d) no Default or Potential Trigger Event being outstanding or will result from entry into and performance under the Transaction Documents;

(e) it obtaining all necessary consents and approvals;

(f) its ownership of, or interests in, the assets over which it has created Security Interests under the Security Documents and which are material to the operation of its Business;

(g) maintaining all necessary insurances;

(h) there being no insolvency event in relation to it (other than any proceeding or claim which is being contested in good faith and is not outstanding for longer than 60 days);

(i) the conduct of its business not violating any judgment, law or regulation;

(j) the due payment of all taxes save to the extent any tax payment is being disputed in good faith;

(k) under the laws of its jurisdictions of incorporation and tax residence in force on the Initial Issue Date, it not (other than as disclosed) being required to make any deduction or withholding from any payment of interest under the Finance Documents where no United Kingdom withholding tax would be imposed on the payment;

(l) subject to reservations of law, the claims of the Secured Creditors ranking prior to the claims of its other unsecured and unsubordinated creditors;

(m) no Security Interest having been created or existing other than Permitted Security Interests and no indebtedness incurred other than Permitted Financial Indebtedness and Permitted Volume Trading Arrangements;

(n) save as otherwise disclosed in the base prospectus dated 24 August 2007 in connection with the Programme, no litigation proceedings current, pending or threatened;

(o) compliance with environmental laws;

(p) subject to certain limited exceptions, all arrangements or contracts with any person being on arm's length basis;

(r) on the Initial Issue Date, no member of the TWU Financing Group being liable in respect of any Financial Indebtedness that is not Senior Debt, except for certain Permitted Financial Indebtedness;

(s) in the case of TWUL, it having the necessary Intellectual Property Rights to carry on its Appointed Business;

(t) in the case of TWUL, it being unaware of any Special Administration Order having been made in respect of it; and

(u) in the case of TWUL, assumptions used in respect of financial ratio calculations and projections having been made in good faith, after careful consideration and materially consistent with Applicable Accounting Principles and applicable Good Industry Practice.

Additionally, each of TWH, TWUF and the Issuer represented that its activities have been limited prior to the Initial Issue Date to support their bankruptcy remote status.

For the avoidance of doubt, TWUCFH is bound by all representations binding on TWH under the CTA.

Covenants

The CTA contains certain positive, negative and financial covenants from each of the Obligors. A summary of the covenants which are (among others) included in the CTA (subject, in some cases, to agreed exceptions (including, where applicable, the Existing Non-Compliances), de minimis amounts and qualifications as to materiality and reservations of law) is set out below in the sections "*Information Covenants*", "*General Covenants*" and "*Financial Covenants*".

Information Covenants

(a) TWUL has undertaken to provide, from time to time, certain information including:

  (i) information, which would reasonably be expected to be material to an Authorised Credit Provider, which it supplies to Ofwat;

  (ii) details of proposed material changes to the Instrument of Appointment or constitutional documents;

  (iii) details of any investigations or proceedings;

(iv) any notice (including an Enforcement Order) from any governmental authority or industry regulator;

(v) a semi-annual Investors' Report;

(vi) certain other material information about the business and financial condition of each of the Obligors as may be requested or required to be delivered from time to time; and

(vii) information in relation to any announcement of K.

(b) Each Obligor has undertaken to provide, within certain agreed timeframes, certain information including:

(i) its audited financial statements and (in respect of TWUL only) its unaudited interim financial statements;

(ii) copies of all material documents despatched by it to its creditors (other than in the ordinary course of its business);

(iii) details of any litigation or other proceedings which are current, threatened or pending;

(iv) details of any Obligor placed on credit watch with negative implications with a view to a possible downgrade below Investment Grade and any non-compliance with any law or regulation or the occurrence of an emergency;

(v) notification of any Default or Potential Trigger Event;

(vi) details of any event which could give rise to an insurance claim in excess of 0.25 per cent. of RCV; and

(vii) details of any event which would be reasonably likely to have a Material Adverse Effect and, where relevant, the Periodic Information relating to it.

(c) Each of TWUL, TWUF and the Issuer has undertaken, among other things:

(i) to supply a compliance certificate to be accompanied by computations made in respect of such historical and forward-looking financial ratios as required by the CTA;

(ii) to permit the Security Trustee to investigate the calculations contained in any compliance certificate; and

(iii) to deliver a certificate upon request by the Security Trustee certifying that no Default or Potential Trigger Event is outstanding of which it is aware having made all reasonable enquiries or if a Default or Potential Trigger Event is outstanding of which it is aware, specifying the Default or Potential Trigger Event and the steps (if any) taken or proposed to be taken to remedy such event.

General Covenants

(a) Each Obligor has undertaken, among other things:

(i) to maintain its corporate status;

(ii) to ensure that the secured claims of Secured Creditors against it under the Finance Documents will rank prior to the claims of all its other unsecured and unsubordinated creditors;

(iii) to operate and maintain its business in a safe, efficient and business-like manner and in accordance with its memorandum and articles of association and the Finance Documents and, in the case of TWUL (other than the Existing Non-Compliances), the Instrument of Appointment, the WIA and Good Industry Practice (taking its Business as a whole);

(iv) to ensure that the corporate ownership structure of the TWU Financing Group (other than the ownership or Control of TWH) remains as at the date of the CTA (other than any change pursuant to Permitted Acquisitions or Permitted Disposals);

(v) not to incur any Financial Indebtedness other than Permitted Financial Indebtedness or, in the case of TWUL, Permitted Volume Trading Arrangements;

(vi) not to acquire or invest, other than Permitted Acquisitions, Authorised Investments and Permitted Joint Ventures or as permitted by the Transaction Documents or with the consent of the Security Trustee (and provided that, TWUL may not implement the Permitted Reorganisation pursuant to paragraph (f) of the definition of Permitted Acquisition unless the special purpose holding company which is acquiring the shares of the Issuer has acceded as an Obligor to the STID, CTA, MDA, Security Agreement, Bond Trust Deed, Agency Agreement and the Tax Deed of Covenant);

(vii) not to, or to permit any Permitted Joint Venture to, be a creditor in respect of any Financial Indebtedness or issue any guarantee or indemnity in respect of the obligations of any other person;

(viii) not to change its constitutional documents without the prior written consent of the Security Trustee;

(ix) not to enter into any Treasury Transaction other than (i) Hedging Agreements; and (ii) Treasury Transactions entered into by TWUL in the ordinary course of its business to manage risk inherent in its business for non-speculative purposes only and not in respect of any Financial Indebtedness;

(x) except for in connection with a Permitted Tax Loss Transaction, a Permitted VAT Accounts System or the TWUL VAT Group or pursuant to any Finance Lease Document, not to enter, without the consent of the Security Trustee, into any arrangements with any other company or person (other than a taxation authority in respect of the taxation liabilities of such Obligor or any other Obligor or pursuant to the Finance Documents) relating to Tax;

(xi) not to compromise or settle any claim, litigation or arbitration without prior notification to the Security Trustee;

(xii) (A) other than the Existing Non-Compliances, to obtain, maintain and comply with all applicable laws, regulations and orders and obtain and maintain all governmental and regulatory consents, licences, authorisations and approvals (including the Instrument of Appointment) necessary for the conduct of its business as a whole in accordance with Good Industry Practice and (B) to do nothing which would lead to the termination, suspension or revocation of any such consents, licences, authorisations and approvals;

(xiii) to pay all Taxes for which an Obligor is primarily liable;

(xiv) other than in respect of Permitted Disposals, not to create or allow to exist any Security Interest on any of its present or future revenues or assets other than Permitted Security Interests, nor create or enter into any restriction or prohibition on the creation or granting of, any Security Interest on any of its assets except as permitted by the Finance Documents, nor create or permit to exist any further Security Interest over all or any of its present and future revenues, equipment or

assets as security for any Permitted Financial Indebtedness other than in favour of the Security Trustee to be held upon the terms of the STID;

(xv) not to (A) (i) dispose of any of its assets on terms where it is or may be leased to or re-acquired or acquired by an associate other than Permitted Disposals (in the case of TWUL) pursuant to a Finance Lease; or (ii) dispose of any of its receivables (other than Permitted Disposals) or (iii) purchase any asset on terms providing for (or likely to have the substantive effect of) a retention of title or a conditional sale, in circumstances where the primary purpose is raising Financial Indebtedness or financing the acquisition of an asset; nor (B) enter into any such transaction in (A) (i) and (ii) above where the primary purpose is not raising finance to the extent that the consideration in respect of such transaction is not received in cash in full at the time and exceeds 0.1 per cent. of RCV in aggregate at any time;

(xvi) not to dispose of the Equipment or its undertaking, revenues, business or assets other than a Permitted Disposal, a Permitted Joint Venture or to create a Permitted Security Interest;

(xvii) not to change its tax residence from the United Kingdom; or

(xviii) other than as a result of a Permitted Emergency Action, not to enter into any arrangement or contract with any person otherwise than on an arm's length basis.

(b) Additionally, TWH has undertaken, amongst other things:

(i) not to carry on or transact any business or other activity other than (A) ownership of the shares in members of the TWU Financing Group; (B) the giving of the guarantee and security in accordance with the Finance Documents; (C) the performance of obligations required or exercise of any rights under the Finance Documents; (D) receiving the Intra-Group Debt Service Distributions (if any); and (E) carrying out any Permitted Post Closing Events;

(ii) not to own any asset or incur any liabilities except for the purposes of carrying on its business in accordance with the Finance Documents;

(iii) not to incur Financial Indebtedness (other than certain categories of Permitted Financial Indebtedness) to any member of the Thames Water Group or any Affiliate or be a lender in respect of Financial Indebtedness of any member of the Thames Water Group or any Affiliate unless the occurrence of such Financial Indebtedness is in compliance with the Restricted Payment Condition; and

(iv) not to make any Restricted Payments otherwise than in accordance with the Finance Documents and out of monies received by it, directly or indirectly, from TWUL which have been properly paid by TWUL as a Distribution or as set out under the CTA.

(c) TWUL has further undertaken to maintain at least 3 non-executive directors who are not employees or directors of any Associate (save as disclosed in writing to the Security Trustee on the Initial Issue Date or as otherwise approved by the Security Trustee).

(d) Additionally, TWUL has undertaken, among other things:

(i) to ensure that the nature of its business is limited to the Business;

(ii) to conduct its Appointed Business in the name of TWUL only and to ensure its business separation from the Thames Water Group or any Associate is maintained;

(iii) not to permit, agree to or recommend any suspension or the abandonment of all or a material part of the operation of its Appointed Business;

(iv) if it exceeds the Permitted Non-Appointed Business Limits, to dispose of or reduce all or part of its Permitted Non-Appointed Business within six months of the date on which the Permitted Non-Appointed Business Limits are first exceeded so that the Permitted Non-Appointed Business Limits are complied with on the next Calculation Date immediately following the expiry of the relevant six-month period;

(v) to comply in all material respects with the Instrument of Appointment;

(vi) not to agree to any amendment or variation of the Instrument of Appointment;

(vii) to comply with applicable relevant Environmental Laws and Environmental Approvals applicable to it and to notify the Security Trustee of any Environmental Claims;

(vii) to effect and maintain those insurances in connection with its Business as are required under the CTA;

(viii) to procure that any Outsourcing Agreement or Capex Contract entered into on and from the Initial Issue Date complies with the Public Procurement Rules (if such Outsourcing Agreement or Capex Contract would be an agreement to which the Public Procurement Rules would apply) and the Outsourcing Policy;

(ix) to ensure it has adequate financial and management resources to enable it to discharge its core obligations under the Instrument of Appointment;

(x) (A) following receipt of notice of termination of the Instrument of Appointment, use its reasonable endeavours to ensure that (i) a Transfer Scheme is agreed between TWUL, the transferee and Ofwat by a date not less than two years prior to the expiration of such notice; (ii) any such Transfer Scheme will not be materially prejudicial to the Secured Creditors; and (iii) the Security Trustee is kept fully informed of the consultation process with Ofwat and is consulted in relation thereto if TWUL becomes subject to any Transfer Scheme; and (B) subject to its obligations under the WIA, not to agree to any Transfer Scheme without the consent of the Security Trustee;

(xi) as soon as reasonably practicable, to apply to Ofwat for an IDOK when permitted under the Instrument of Appointment where it would be prudent and in the best commercial interests of TWUL to do so; and

(xii) to levy charges to customers which, together with other available amounts, are as far as possible sufficient, within the constraints of the current price control framework or other regulatory requirements, to enable TWUL to meet its operational, investment and financial obligations under the Instrument of Appointment and its obligations in respect of Financial Indebtedness.

(e) Additionally, each of TWUL, TWUF and the Issuer has undertaken, among other things:

(i) to each use its reasonable endeavours to ensure that it maintains an underlying rating in respect of the Wrapped Bonds and a credit rating in respect of the Unwrapped Bonds with two of the Rating Agencies as the Security Trustee and TWUL shall agree, in each case, of Investment Grade;

(ii) only to:

(A) implement Deferrals of K at a time when no Event of Default is subsisting;

(B) other than in the case of Permitted Post Closing Events or any Intra-Group Debt Service Distribution, make any payment in respect of

Subordinated Debt or pay any Distribution which would be a Restricted Payment if:

(1) in the case of a Distribution only, the payment is made after a board meeting has been held approving such Distribution or dividend;

(2) the aggregate amount of any such payment(s) that may be paid is no higher than the Proposed Payment Amount (as defined below);

(3) on the date of such payment:

- no drawings are outstanding under the Liquidity Facilities, other than Standby Drawings;

- (i) in respect of any Calculation Date falling prior to 31 March 2010 (the "**Ratio Step Date**") the Senior RAR, as certified by the Issuer, TWUF and TWUL in the Compliance Certificate most recently delivered to the Security Trustee and each Rating Agency, is less than or equal to 0.72:1 or, following the occurrence of the Permitted Unsecured Financial Indebtedness Trigger, 0.75:1; and (ii) in respect of any Calculation Date falling after the Ratio Step Date, the Senior RAR, as certified by the Issuer, TWUF and TWUL in the Compliance Certificate most recently delivered to the Security Trustee and each Rating Agency, is less than or equal to 0.82:1 or, following the occurrence of the Permitted Unsecured Financial Indebtedness Trigger, 0.85:1, for each Test Period (after deducting an amount equal to the proposed payment(s) (the "**Proposed Payment Amount**") from available cash);

- no Default subsists or would result from the payment and those representations required to be repeated on each payment date are, and will following such payment remain, correct in all material respects; and

- (i) each underlying rating in respect of the Class A Wrapped Bonds and each credit rating in respect of the Class A Unwrapped Bonds ascribed by each of the Rating Agencies is at least Investment Grade, and (ii) where TWUL has a corporate credit rating, the relevant Rating Agency has not placed TWUL on credit watch with negative implications where it is reasonably likely that the rating given by such Rating Agency will fall below Investment Grade, and (iii) each underlying rating in respect of the Class A Wrapped Bonds and each credit rating in respect of the Class A Unwrapped Bonds has not been placed on credit watch with negative implications where it is reasonably likely that such underlying rating or credit rating will fall below Investment Grade;

- in the case of TWUL, not to make an Intra-Group Debt Service Distribution unless certain conditions are satisfied;

- to inform the Security Trustee of any change to the Auditors, as soon as reasonably practicable;
- to only replace the Auditors without the prior written approval of the Security Trustee if the replacement Auditors are a firm of independent public accountants of international standing; and
- not to change its financial year end without the prior written consent of the Security Trustee.

(f) Additionally, each of the Issuer, TWUF and, in the case of paragraph (b) below, TWUL has undertaken, among other things:

(i) to restrict its business to certain matters in accordance with the Finance Documents;

(ii) not to enter into any Authorised Credit Facility (other than in respect of any Subordinated Debt) unless following such entry into such Authorised Credit Facility:

(A) the aggregate nominal outstanding Financial Indebtedness of the TWU Financing Group which has an expected maturity falling within any period of 24 consecutive months shall not exceed 20 per cent. of RCV for the time being; and

(B) the aggregate nominal outstanding Financial Indebtedness of the TWU Financing Group that has an expected maturity falling within the period from one Periodic Review to the next Periodic Review shall not exceed 40 per cent. of RCV for the time being (adjusted and increased proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than 5 years);

and, for the purposes of this paragraph (b), "expected maturity" shall include any Financial Indebtedness that would, in the ordinary course, be expected to be repaid in full as a result of any Subordinated Step-up Fee Amounts or other extraordinary payment being required to keep such Financial Indebtedness outstanding;

(iii) to use all reasonable endeavours to procure and maintain the admission of all listed Bonds for trading on the London Stock Exchange;

(iv) to procure that the Principal Paying Agent notifies the Bond Trustee if it does not receive the full amount in the correct currency in respect of any payment in respect of the Bonds on or before the due date for such payment;

(v) to give notice of certain events to the Bond Trustee and Bondholders in relation to the Bonds and payments in respect of the Bonds;

(vi) while any of the Bonds remain Outstanding, to procure that notice is given to each of the Rating Agencies of (A) any proposed amendment to the Finance Documents; (B) the Bonds of any Sub-Class being repaid in full; (C) the termination of the appointment of the Cash Manager; (D) the appointment of a replacement Bond Trustee or Security Trustee or any new or replacement Agents; (E) any Default; (F) the taking of Enforcement Action; (G) the occurrence of any TWH Change of Control; or (H) the acquisition of any Permitted Subsidiary pursuant to a Permitted Acquisition, in each case, promptly after the Issuer or TWUL becoming aware of the same; and

(vii) to give notice of certain events in relation to the Bonds to the Rating Agencies.

For the avoidance of doubt, TWUCFH is bound by all covenants contained in the foregoing section "*General Covenants*" as are binding on TWH.

Financial Covenants

(a) TWUL has undertaken, among other things:

(i) to deliver, with each Compliance Certificate and each Investors' Report a statement setting out details of the calculation of the following ratios calculated as at the Calculation Date immediately prior to the date of the delivery of that Compliance Certificate:

(A) the Class A ICR for each Test Period;

(B) the Senior Adjusted ICR for each Test Period;

(C) the Class A Adjusted ICR for each Test Period;

(D) the Senior Average Adjusted ICR for each Test Period;

(E) the Class A Average Adjusted ICR for each Test Period;

(F) the Senior RAR for each Test Period; and

(G) the Class A RAR for each Test Period; and

(ii) at each Periodic Review and on making each IDOK application, to apply to Ofwat for a price determination which, in the reasonable opinion of the TWUL directors, would allow, at a minimum, a credit rating the same as the original credit rating in respect of the Class A Unwrapped Bonds and an underlying rating the same as the original underlying rating in respect of the Class A Wrapped Bonds, in each case from each of the Rating Agencies.

(b) Each of the Issuer and TWUF has further undertaken (and TWUL has undertaken to procure that each of the Issuer and TWUF will undertake) to maintain DSR Liquidity Facilities available for drawing which (when aggregated with all amounts (including the value of any Authorised Investments) standing to the credit of the Debt Service Reserve Accounts of the Issuer and TWUF) are not less than the cash amount of interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) payable on the Class A Debt, the Unsecured TWUF Bond Debt and the Class B Debt for the next succeeding 12 month period (after taking into account the impact on interest rates of such Class A Debt, Unsecured TWUF Bond Debt and Class B Debt of any Hedging Agreement then in place).

(c) The Issuer has further undertaken to maintain an O&M Reserve and/or O&M Reserve Facility available for drawing which together (including the value of any Authorised Investments funded from the balance on any O&M Reserve Account) amount to not less than the O&M Reserve Required Amount.

Trigger Events

The CTA also sets out certain Trigger Events which include (subject to agreed exceptions, materiality qualifications, grace periods and remedies and as more particularly provided in the CTA) the occurrence of any of the following events:

(a) *Financial Ratios*

(i) the Senior RAR for any Test Period (i) prior to the Ratio Step Date is estimated to be more than 0.75:1; and (ii) from and including the Ratio Step Date is estimated to be more than 0.90:1;

(ii) the Class A RAR for any Test Period is or is estimated to be more than 0.75:1;

(iii) the Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1;

(iv) the Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1;

(v) the Senior Average Adjusted ICR for any Test Period is or is estimated to be less than 1.2:1; or

(vi) the Class A Average Adjusted ICR for any Test Period is estimated to be less than 1.4:1.

(b) *Debt Service Payment Account Shortfall*

The failure by TWUL to pay the Monthly Payment Amount within five Business Days following the date on which such payment was scheduled to be made.

(c) *Material Deviation in Projections*

On any Calculation Date, the estimated actual Capital Expenditure for the five-year period between the last Periodic Review and the next Periodic Review exceeds the Capital Expenditure for that period assumed by Ofwat for such period (as adjusted for the exceptions noted below) in respect of TWUL by 10 per cent. or more. Allowable adjustments to the Capital Expenditure assumed by Ofwat are as follows:

(i) Variances in Out-turn Inflation, including variances in real construction prices from assumed construction prices;

(ii) Variances that TWUL has reasonable expectation will be recovered through a Recognised Ofwat Mechanism by no later than the next Periodic Review Effective Date, and provided that if such recovery is not made in full by the next Periodic Review Effective Date or, if prior to such date TWUL is notified in writing by Ofwat that such Variance will not be recovered in full as part of the Final Determination for the next Periodic Review Period, the Variance shall be reversed to the extent of such non-recovery and shall not be an allowable adjustment for the purposes of this paragraph (iii);

(iii) Variances attributable to the S.19 Undertaking agreed with Ofwat during 2006 (specifically the increased investment in the VMR Programme) up to a maximum amount of £150 million; and

(iv) Variances attributable to investment in Major Capex Projects, where such projects were not reflected in the existing Periodic Review, but are the subject of discussions with Ofwat and TWUL provides a written confirmation from Ofwat that such Variance will (subject to any terms or conditions contained in such confirmation) be added to the RCV by no later than the next Periodic Review Effective Date, and provided that if such recovery is not made in full by the next Periodic Review Effective Date or, if prior to such date TWUL is notified in writing by Ofwat that such Variance will not be recovered in full as part of the Final Determination for the next Periodic Review Period the Variance shall be reversed to the extent of such non-recovery and shall not be an allowable adjustment for the purposes of this paragraph (iii).

(d) *Liquidity for Capital Expenditure and Working Capital*

If, as at any Calculation Date, the aggregate of (i) TWUL's operating cash flows including monies standing to the credit of the Operating Accounts available or forecast to be available to meet Capital Expenditure and working capital requirements for the next 12 months; and

(ii) Authorised Credit Facilities (excluding Liquidity Facilities) available to be drawn in the next 12 month period, is less than the aggregate of (a) TWUL's forecast Capital Expenditure projected for the next 12 month period; (b) TWUL's forecast working capital requirements projected for the next 12 month period; and (c) the amount the Issuer, TWUF or, as the case may be, TWUL estimates, in its reasonable opinion, is equal to the net amount payable by the Issuer, TWUF or, as the case may be, TWUL to a Hedge Counterparty following the exercise of an option to terminate a Treasury Transaction as permitted by the Hedging Policy.

(e) *Drawdown on DSR Liquidity Facilities and O&M Reserve Facilities*

If, at any time, the aggregate of all amounts available for drawing under the DSR Liquidity Facilities and all amounts standing to the credit of the Debt Service Reserve Accounts of the Issuer and TWUF is less than an amount equal to the next 12 months interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) payable in respect of Class A Debt, the Unsecured TWUF Bond Debt and Class B Debt (although it will not be a Trigger Event if it is triggered as a direct result of a banking error and remedied by such amount being repaid within three Business Days without such repayment being funded by a further drawing under a DSR Liquidity Facility).

If the Issuer draws down under an O&M Reserve Facility or either the Issuer or TWUL withdraws funds from either O&M Reserve Account, in either case to pay TWUL's operating or maintenance expenditure.

(f) *Enforcement Order*

An Enforcement Order is issued under Part II, Chapter II of the WIA against TWUL which would have a Material Adverse Effect if not complied with.

(g) *Circumstances leading to a Special Administration Order*

Any published indication or occurrence of other circumstance that would reasonably be expected to lead to an application by Ofwat or the Secretary of State for a Special Administration Order to be made in respect of TWUL.

(h) *Termination of Instrument of Appointment*

The giving of a notice to terminate the Instrument of Appointment under the WIA.

(i) *Event of Default*

An Event of Default is continuing.

(j) *Referral regarding Substantial Effects Clause*

A referral is made under Paragraph 14.2 of Condition B of the Instrument of Appointment (or any successor or equivalent paragraph) as a result of any materially adverse event.

(k) *Audit Qualification*

The Auditors qualify their report of any member of the TWU Financing Group in a material manner which causes the financial ratios calculated in accordance with the CTA to not reflect the true position of TWUL in a materially adverse manner.

(l) *Adverse Governmental Legislation*

The commencement of the final reading of new legislation impacting upon Relevant Undertakers (as that term is defined in the WIA) if such legislation would (if enacted) lead to a breach of the financial ratios set out above or cause a material deviation in projections

as set out above (in each case, taking into account any actions available to TWUL to mitigate or cure the same).

(m) *Modification or Replacement of Instrument of Appointment*

If within six months of an announcement setting out clear proposals (including a related timetable to effect such proposals) by Ofwat for the modification or replacement of the Instrument of Appointment which, if implemented, would have a Material Adverse Effect, TWUL has not obtained confirmation from Ofwat that the proposed modification or replacement is not expected to be implemented or is expected to be implemented in a form which is not reasonably expected to have a Material Adverse Effect.

(n) *Conduct of Business*

The Permitted Non-Appointed Business Limits are breached.

(o) *Adverse Final Determination of K*

A final determination of K by Ofwat which is reasonably likely to have a Material Adverse Effect (taking into account any remedies available to TWUL).

(p) *RPI Linked Hedging Agreements*

On any Calculation Date, the aggregate amount of all accretions by indexation to the original notional amounts of any RPI Linked Hedging Agreements exceeds 8 per cent. of Class A Net Indebtedness as at that Calculation Date.

Trigger Event Consequences

Following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived or deemed remedied in accordance with the CTA, certain consequences will result, including:

(a) no Obligor may make Restricted Payments and TWUL must not declare and must stop any implementation of any Deferrals of K;

(b) TWUL must provide such information as to the relevant Trigger Event as may be properly requested by the Security Trustee. TWUL must discuss with the Security Trustee (at a mutually convenient time and location) its plans for appropriate remedial action and the timetable for implementation of such action. Any agreed remedial action must then be implemented by TWUL;

(c) the Security Trustee, may, acting on the instructions of the Majority Creditors, commission an Independent Review to be conducted by technical advisers to the Security Trustee (appointed subject to prior consultation with TWUL) to examine the causes of the relevant Trigger Event and recommend appropriate corrective measures;

(d) subject to prior notification to TWUL if practicable, the Security Trustee shall be entitled to discuss the relevant Trigger Event and any Remedial Plan with Ofwat; and

(e) restriction on payments by TWUL under Outsourcing Agreements and/or Capex Contracts with Associates which do not comply with the Outsourcing Policy.

Trigger Event Remedies

At any time when the Issuer, TWUF or TWUL (as the case may be) believes that a Trigger Event has been remedied in accordance with the detailed provisions of the CTA, it must serve notice on the Security Trustee to that effect, and the Security Trustee must respond confirming that the relevant Trigger Event has, in its reasonable opinion, been remedied or setting out its reasons for believing that such Trigger Event has not been remedied (in which case, such event will continue to be a Trigger

Event until such time as the Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

Events of Default

The CTA contains a number of events of default (the "**Events of Default**") which will be Events of Default under each Finance Document (other than, in respect of the Hedge Counterparties, the Hedging Agreements). Subject, in some cases and where not otherwise stated below, to agreed exceptions, materiality thresholds and qualifications, reservations of law, grace periods and remedies, Events of Default will include:

(a) non-payment of amounts payable under the Finance Documents;

(b) non-compliance with certain other obligations under the Finance Documents;

(c) material misrepresentation;

(d) non-payment of amounts payable (after the expiry of any originally applicable grace period) in respect of any Financial Indebtedness other than in respect of the Finance Documents and in excess of 0.1 per cent. of RCV in nominal amount;

(e) insolvency of any Obligor (other than TWUL) or insolvency proceedings being commenced against any Obligor (other than TWUL) or, in relation to TWUL, an insolvency event or insolvency proceedings as set out further in the CTA occur(s) in relation to TWUL;

(f) transfer, revocation or termination of the Instrument of Appointment;

(g) insufficient liquidity to meet TWUL's forecast Capital Maintenance Expenditure and working capital requirements projected for the next six month period;

(h) any Obligor repudiating a Finance Document or it becoming unlawful or ineffective to perform obligations under any Finance Document;

(i) a TWUL Change of Control occurs;

(j) any of the Security ceasing to be in full force and effect;

(k) certain governmental action which would be reasonably likely to have a Material Adverse Effect;

(l) failure by any Obligor to comply with any judgment, attachment, sequestration, distress or execution being made, obtained or levied against the assets of any Obligor in respect of sums exceeding 0.1 per cent. of RCV;

(m) TWUL ceasing or threatening to cease to carry on the Appointed Business;

(n) litigation being started against an Obligor or its assets or revenues which would be reasonably likely to be adversely determined and, if so adversely determined, would have a Material Adverse Effect;

(o) the Class A ICR being less than 1.60:1;

(p) the Senior RAR being more than (i) prior to the Ratio Step Date, 0.85:1; or (ii) from and including the Ratio Step Date, 0.95:1); and

(q) the Class A Adjusted ICR being less than 1:1.

In respect of each Event of Default requiring any action or discretion on the part of the relevant creditor, the Security Trustee will (save in respect of certain Entrenched Rights and Reserved Matters

(see the section "*Entrenched Rights and Reserved Matters*" above)) act in accordance with the instructions of the Majority Creditors in accordance with the STID (see the section "*Security Trust and Intercreditor Deed*" above).

Immediately upon the notification to the Security Trustee of an occurrence of an Event of Default, a Standstill Period will commence in accordance with the STID (see the section "*Security Trust and Intercreditor Deed - Standstill*" above).

Conditions Precedent

The conditions precedent to the issue of Bonds after the Initial Issue Date are all set out in a conditions precedent agreement dated 24 August 2007 (the "**CP Agreement**") as agreed between, among others, the Bond Trustee, the Security Trustee and the Obligors.

Cash Management

Accounts

The CTA requires TWUL to open and maintain the following Accounts with the Account Bank:

(a) certain Operating Accounts;

(b) an O&M Reserve Account;

(c) a Debt Service Payment Account; and

(d) a Compensation Account.

Each of the Issuer and TWUF is required to open and maintain the following Accounts with the Account Bank:

(a) a Transaction Account; and

(b) a Class A Debt Service Reserve Account.

The Issuer is also required to open and maintain a Class B Debt Service Reserve Account and an O&M Reserve Account with the Account Bank.

TWH is permitted to open and maintain one chequing account only with the Account Bank.

Each of the Issuer, TWUF and TWUL may also open and maintain an account (each a "**Swap Collateral Account**") into which any collateral provided by a Hedge Counterparty or guarantor thereof shall be deposited upon the relevant trigger occurring for the provision of such collateral to support the obligations of the Hedge Counterparty or guarantor under the terms of the appropriate Hedging Agreement.

Each of the above accounts together with any other bank account of any Obligor are collectively referred to as the "**Accounts**". Each of the Accounts is or will be held with the Account Bank pursuant to the Account Bank Agreement. Each Obligor has agreed in the CTA to comply with the Account Bank Agreement and the provisions of the CTA applying to its Accounts.

Operating Accounts

Under the CTA, TWUL is required to ensure that all of its revenues (other than any Income on Authorised Investments which shall be credited to the Account from which the relevant Authorised Investment was made) are paid into an Operating Account.

The Operating Accounts are the principal current accounts of TWUL through which all operating and Capital Expenditure or any Taxes incurred by TWUL and (subject to the terms of the Finance

Documents) payments in respect of the Financial Indebtedness of the TWU Financing Group which are not permitted to be satisfied out of monies credited to the Debt Service Payment Account shall be cleared (including any amounts payable by TWUL upon the occurrence of a Permitted EIB Compulsory Prepayment Event (subject to the proviso contained in the definition of Permitted EIB Compulsory Prepayment Event), any amount prepayable by the Issuer under (and subject to the limitations in) the Credit Facility and any amounts payable in respect of any Unsecured TWUF Bond Debt and other permitted unsecured debt of TWUL). TWUL may make transfers at any time from one Operating Account to another, in its sole discretion. TWUL may hold separate Operating Accounts for its Appointed Business and each of the trades entered into in connection with its Permitted Non-Appointed Business.

All operating expenditure of TWUL is funded (a) through payments made directly into the Operating Accounts and (b) through drawings made by the Issuer, TWUF or TWUL under any Authorised Credit Facility or other Permitted Financial Indebtedness and, in the case of drawings made by the Issuer or TWUF, on-lent to TWUL under an Issuer/TWUL Loan Agreement or, as the case may be, the TWUF/TWUL Loan Agreements, as and when required and permitted by the Finance Documents.

Capital Expenditure of TWUL has been or will be partially financed by the Capital Expenditure Facility of the Credit Facility (see the section "*Additional Resources Available*" below) with amounts drawn down by the Issuer being on-lent to TWUL under the Initial Issuer/TWUL Loan Agreement and being paid by TWUL into the Operating Accounts. Proceeds in respect of property damage insurance (other than in respect of delay of start-up, business interruption or anticipated loss in revenue or third party claims) will also be paid by TWUL into the Operating Accounts. On an ongoing basis, Capital Expenditure will be funded out of monies standing to the credit of the Operating Accounts and/or (in relation to Capital Maintenance Expenditure) to the extent that the sums standing to the credit of the Operating Accounts are insufficient, TWUL's O&M Reserve Account.

All Distributions and Permitted Post Closing Events have been or will be funded (directly or indirectly) out of monies standing to the credit of the Operating Accounts subject always to the satisfaction of all of the conditions set out in the CTA for the making of such payments.

Annually on 31 March of each year (or, if such day is not a Business Day, the immediately preceding Business Day) TWUL calculates the Annual Finance Charge for the following 12 month period commencing on 1 April and details of such calculation are included in the next following Investors' Report.

Under the CTA, TWUL on the opening of business on the first Business Day of each month until the Discharge Date transfers from the Operating Accounts to the Debt Service Payment Account an amount (the "**Monthly Payment Amount**") equal to 1/12th of TWUL's Annual Finance Charge for the relevant twelve month period, **provided that** the aggregate of any interest accruing on and credited to the Debt Service Payment Account is treated as a prepayment of future Monthly Payment Amounts payable during the relevant twelve month period. Accordingly, the Monthly Payment Amounts due for the remaining months of such twelve month period shall be reduced *pro rata* to reflect such prepayment.

TWUL recalculates the Annual Finance Charge and the Monthly Payment Amount if during the course of any relevant twelve month period there occurs any increase (whether as a result of any increase in the rate of applicable interest, any drawing under any Authorised Credit Facility, any deferral of interest, any upwards adjustment of rentals under any Finance Lease, or otherwise) or decrease (whether as a result of any reduction in the rate of applicable interest, downwards adjustment of rentals under any Finance Lease or any prepayment or repayment of the debt under which the relevant liabilities arise or accrue or otherwise) in the Annual Finance Charge and shall adjust the Monthly Payment Amount for the remaining months in the relevant twelve month period and details will be included in the next following Investors' Report.

TWUL's O&M Reserve Account

Withdrawals from TWUL's O&M Reserve Account are only permitted if (i) such withdrawal is on account of operating and capital expenditure requirements that cannot be met from existing balances in the Operating Accounts, (ii) such withdrawal is for the purpose of transferring into an Operating

Account any interest income earned from time to time on the O&M Reserve Account (including Income from any related Authorised Investments), or (iii) to the extent of any surplus O&M Reserves as certified by TWUL to the Security Trustee and the Account Bank.

TWUL must ensure that the proceeds of any drawing by the Issuer under any O&M Reserve Facility Agreement (other than a Standby Drawing) are lent by the Issuer to TWUL under an Issuer/TWUL Loan Agreement and are paid directly into TWUL's O&M Reserve Account or an Operating Account.

Debt Service Payment Account

On the Initial Issue Date, TWUL directed that the "Pre-Test Period" amount of £17.3 million (representing the period from the Initial Issue Date up to 31 March 2008) be paid into the Debt Service Payment Account. TWUL must ensure that each transfer of or in respect of the Monthly Payment Amount from the Operating Account, is made directly into the Debt Service Payment Account.

The CTA provides that, on each Payment Date, monies credited to the Debt Service Payment Account must be applied by TWUL in the following order for the purpose of enabling the following payments ("**Permitted Payments**") to be made in the following order of priority (the "**Payment Priorities**") without double counting (provided that, any amounts applied by TWUL in directly discharging an obligation of TWUF or the Issuer shall be treated as having simultaneously discharged TWUL's corresponding obligation to pay on such Payment Date to the Issuer or, as the case may be, TWUF facility fees, interest, principal, indemnity amounts and other sums due to the Issuer or, as the case may be, TWUF under the Issuer/TWUL Loan Agreements or, as the case may be, the TWUF/TWUL Loan Agreements and *provided further that*, the payment of any retained margin of the Issuer under the Issuer/TWUL Loan Agreements and TWUF under the TWUF/TWUL Loan Agreements shall be paid at items (vi) and (xii) and shall be transferred to the Transaction Account of the Issuer or, as the case may be, TWUF):

(a) *first* (to the extent there are insufficient monies standing to the credit of all other Accounts (other than any Swap Collateral Account) and/or available for drawing under any Liquidity Facility), in or towards satisfaction of all of the TWU Financing Group's operating and budgeted maintenance costs (except to the extent falling due under the Finance Documents);

(b) *second*, *pro rata*, according to the respective amounts thereof (a) in satisfaction of TWUL's or, as the case may be, the Issuer's obligation to pay such amounts, in or towards payment of the remuneration, costs and expenses of the Security Trustee and the Bond Trustee; and (b) in satisfaction of TWUF's obligation to pay such amounts, payment of the remuneration, costs and expenses of the TWUF Bond Trustees in respect of the Secured TWUF Bonds;

(c) *third, pro rata,* according to the respective amounts thereof in or towards satisfaction of: (a) the Issuer's obligation to pay such amounts, the remuneration, costs and expenses of the Agent Bank and each Paying Agent; (b) the Issuer's and the TWUF's obligation to pay such amounts, the remuneration, costs and expenses of the Account Bank under the Account Bank Agreement and the remuneration, costs and expenses of each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (c) the Issuer's obligation to pay such amounts, the remuneration, costs and expenses of each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; (d) the Issuer's and/or TWUL's obligations to pay such amounts, the remuneration, costs and expenses of each Facility Agent and each Authorised Credit Facility Provider under the relevant Authorised Credit Facility and the Standstill Cash Manager; (e) the remuneration, costs, expenses and fees of each Financial Guarantor pursuant to the relevant G&R Deed; and (f) TWUF's obligation to pay such amounts, the costs and expenses of TWUF in respect of the Secured TWUF Bonds being all amounts due by way of remuneration, costs and expenses to any issuing and paying agent, registrar, transfer agent or other agents in respect of the Secured TWUF Bonds;

(d) *fourth*, *pro rata,* according to the respective amounts thereof, in or towards satisfaction of: (a) the Issuer's and TWUF's obligations to pay all amounts of fees, interest and principal (other than any Subordinated Liquidity Facility Amounts) due or overdue to each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (b) the

Issuer's obligation to pay all amounts of fees, interest and principal (other than Subordinated Liquidity Facility Amounts) due or overdue to each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; and (c) all amounts of interest and principal due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility to the extent that the Financial Indebtedness was incurred to fund a New Money Advance;

(e) *fifth*, *pro rata,* according to the respective amounts thereof, in or towards satisfaction of all scheduled amounts payable to each Hedge Counterparty under any Interest Rate Hedging Agreement (subject to paragraphs (vi) and (vii));

(f) *sixth*, *pro rata,* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest (including the Lease Reserve Amounts and Adjusted Lease Reserve Amounts), recurring fees and commitment commissions due or overdue in respect of the Class A Debt (other than any Subordinated Step-up Fee Amounts and Subordinated Authorised Loan Amounts); (b) any unscheduled amounts (including termination amounts) due and payable to each Hedge Counterparty under any Interest Rate Hedging Agreement (except to the extent required to be paid at paragraph (xvi) below) or any reserves in respect thereof required to be paid to the Compensation Account or any amounts due from TWUL by reference to broken funding costs under and in accordance with an Existing Finance Lease in respect of any fixed interest funding obtained or assumed to be obtained by the Finance Lessor under the terms thereof; (c) all scheduled amounts (other than principal exchange or final exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt and (subject to paragraph (xvi) below and following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or the revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (d) all amounts of underwriting commissions due or overdue in respect of Class A Debt; and (e) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class A Wrapped Bonds guaranteed by such Financial Guarantor;

(g) *seventh*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of Class A Debt (including, in respect of Finance Leases, those amounts (including any rental and capital sums) payable in respect thereof which do not fall within paragraph (vi) above and do not fall due as a result of the operation of any indemnity or fee reimbursement provision of a Finance Lease); (b) all principal exchange or final exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (c) any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt (except to the extent required to be paid at paragraph (xvi) below) or any reserves in respect thereof required to be paid to the Compensation Account; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class A Wrapped Bonds guaranteed by such Financial Guarantor;

(h) *eighth*, in or towards satisfaction of any Make-Whole Amount due and payable on the Class A Debt;

(i) *ninth, pro rata* according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-up Fee Amounts due or overdue in respect of any Class A Bonds;

(j) *tenth, pro rata* according to the respective commitments of the Issuer and TWUF under their respective DSR Liquidity Facilities, in payment to (a) the Class A Debt Service Reserve Account of the Issuer; and (b) the Class A Debt Service Reserve Account of TWUF until the sum of the balance thereon and the aggregate available commitments under the DSR Liquidity Facilities is equal to the Class A Required Balance;

(k) *eleventh*, in payment to the Issuer's O&M Reserve Account until the sum of the O&M Reserve and the aggregate of amounts available to be drawn under O&M Reserve Facilities is not less than the O&M Reserve Required Amount;

(l) *twelfth, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) interest and commitment commissions due or overdue in respect of the Class B Debt (other than any Subordinated Step-up Fee Amounts); (b) all scheduled amounts (other than principal exchange or final exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt and (subject to paragraph (xvi) below and following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or the revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; (c) all amounts of underwriting commissions due or overdue in respect of the Class B Debt; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class B Wrapped Bonds guaranteed by such Financial Guarantor;

(m) *thirteenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of principal due or overdue in respect of the Class B Debt; (b) all principal exchange or final exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; (c) any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt (except to the extent required to be paid at paragraph (xvi) below) or any reserves in respect thereof required to be paid to the Compensation Account; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class B Wrapped Bonds guaranteed by such Financial Guarantor;

(n) *fourteenth*, in or towards satisfaction of any Make-Whole Amount due and payable on the Class B Debt;

(o) *fifteenth*, in payment to the Class B Debt Service Reserve Account of the Issuer until the sum of the balance thereon and the aggregate available commitments under the Class B DSR Liquidity Facilities is equal to the Class B Required Balance;

(p) *sixteenth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) any other amounts (not included in paragraphs (vi) and (vii) above), due and/or overdue to the Finance Lessors; and (b) any termination payment due or overdue to a Hedge Counterparty under any Hedging Agreement which arises as a result of a default by such Hedge Counterparty or as a result of a downgrade in the credit rating of such Hedge Counterparty following any failure by the Hedge Counterparty to comply with the applicable downgrade provisions set out in the relevant Hedging Agreement (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the Issuer, TWUL or TWUF to enter into a transaction to replace a Hedging Agreement (in whole or in part)) which shall be applied first in payment of amounts due to the Hedge Counterparty in respect of that Hedging Agreement);

(q) *seventeenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all Subordinated Liquidity Facility Amounts due or overdue to each Liquidity Facility Provider under the Class A DSR Liquidity Facilities; (b) all Subordinated Authorised Loan Amounts due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility in respect of Class A Debt; (c) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant G&R Deed in respect of any Class A Wrapped Bonds guaranteed by such Financial Guarantor; and (d) any amounts payable in respect of Class A Debt not referred to in other sub-paragraphs of the Payment Priorities;

(r) *eighteenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all Subordinated Liquidity Facility Amounts due or overdue to each Liquidity

Facility Provider under the Class B DSR Liquidity Facility; (b) all Subordinated Authorised Loan Amounts due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility in respect of Class B Debt; (c) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant G&R Deed in respect of any Class B Wrapped Bonds guaranteed by such Financial Guarantor; and (d) any amounts payable in respect of Class B Debt not referred to in other sub-paragraphs of the Payment Priorities;

(s) *nineteenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-up Fee Amounts due or overdue in respect of any Class B Bonds;

(t) *twentieth*, (to the extent required in the CTA) the balance shall remain in the Debt Service Payment Account.

If at the end of any Test Period, there are amounts standing to the credit of the Debt Service Payment Account ("**Excess Funds**") as a result of either (a) interest credited to and accruing on the Debt Service Payment Account or (b) payment of amounts into the Debt Service Payment Account in excess of the Annual Finance Charge for such Test Period, such Excess Funds will be treated and applied as a prepayment of future Monthly Payment Amounts due in the succeeding Test Period.

The Payment Priorities set out in paragraphs (i) to (xx) inclusive do not apply to (a) the proceeds of any further borrowing of Permitted Financial Indebtedness which are required by the terms of such borrowing to be applied in repayment or prepayment of any existing Financial Indebtedness of the TWU Financing Group to the extent permitted by the CTA or (b) any return of collateral or premium or up front payment on replacement of a Hedging Agreement which has been terminated in the circumstances contemplated in paragraph (xvi) above which will be paid to the relevant Hedge Counterparty directly. In no circumstance is TWUL entitled to apply monies represented by the Monthly Payment Amount in or towards making a Restricted Payment.

For so long as no Standstill Event is continuing, TWUL must, on the date which is seven Business Days prior to each Payment Date (such date, a "**Determination Date**"), determine whether the aggregate amount of monies then credited to the Debt Service Payment Account is at least equal to the aggregate of all amounts (other than principal repayments on the Senior Debt) which fall due and payable on such Payment Date (such aggregate amount, "**Scheduled Debt Service**"). If the balance on the Debt Service Payment Account on a Determination Date is less than the amount of Scheduled Debt Service falling due on the following Payment Date, then TWUL must promptly transfer to the Debt Service Payment Account an amount equal to the shortfall first from sums standing to the credit of the Operating Accounts and then, to the extent that there would still be a shortfall in meeting the Scheduled Debt Service, from sums standing to the credit of the Debt Service Reserve Accounts. No amounts may be so transferred to the extent that to do so would cause the aggregate net balance of the Operating Accounts to fall below the then current aggregate net overdraft limit on the Operating Accounts or cause the balance on any Operating Account to fall below the then current gross overdraft limit in respect of such Operating Account or cause the balance of any Debt Service Reserve Account to fall below zero. If after making any required transfers from the Operating Accounts and/or the Debt Service Reserve Accounts the balance on the Debt Service Payment Account would be insufficient to pay any Scheduled Debt Service falling due for payment at items (i)-(vi) inclusive and, after deducting all payments to be made in priority thereto, items (ix), (xii) or (xix) of the Payment Priorities (excluding any termination payments under any Hedging Agreements), the Issuer and/or, in the case of a shortfall relating to the obligations of TWUF, TWUF shall promptly request a drawing under the relevant DSR Liquidity Facility for payment on the following Payment Date in an amount equal to the shortfall.

Debt Service Reserve Accounts and Issuer's O&M Reserve Account

TWUL must (subject to and in accordance with the Payment Priorities) transfer monies standing to the credit of the Debt Service Payment Account to the Class A Debt Service Reserve Accounts (of the Issuer and TWUF), the Class B Debt Service Reserve Account (of the Issuer) or the Issuer's O&M Reserve Account, as required.

Each of the Issuer and, in the case of the relevant Class A DSR Liquidity Facility, TWUF must drawdown the whole of a Liquidity Facility Provider's commitment if that Liquidity Facility Provider

(i) ceases to have the Minimum Short-Term Rating; or (ii) fails to renew its commitment at the end of the term of the relevant Liquidity Facility and whose commitment is not replaced by another Liquidity Facility Provider. The Issuer or, as the case may be, TWUF must deposit the proceeds of each such drawdown into its Debt Service Reserve Account (in the case of a drawdown under a DSR Liquidity Facility Agreement) or the Issuer's O&M Reserve Account (in the case of a drawdown by the Issuer under any O&M Reserve Facility).

No monies may be withdrawn from the Debt Service Reserve Accounts or the O&M Reserve Account except as permitted by the relevant Liquidity Facility Agreement (see the "Liquidity Facilities" below) and the CTA or if the Issuer delivers, prior to any withdrawal, a certificate to the Security Trustee and the Account Bank that following the making of such withdrawal (a) in the case of the Debt Service Reserve Accounts, the aggregate of the amounts standing to the credit of the Debt Service Reserve Accounts, and available for drawing under the DSR Liquidity Facilities is at least equal to the Required Balance and (b) in the case of the Issuer's O&M Reserve Account, the aggregate of the O&M Reserve and amounts available for drawing under the O&M Facilities is at least equal to the O&M Reserve Required Amount.

TWUL has agreed to procure that on any Payment Date and (in respect of paragraph (a) only) any Unsecured TWUF Bond Payment Date (save for any date upon which a drawing is to be made under a DSR Liquidity Facility or out of the Debt Service Reserve Accounts to make a payment into the Debt Service Payment Accounts):

(a) the aggregate of (i) all amounts available for drawing under the DSR Liquidity Facilities; and (ii) all amounts standing to the credit of the Class A Debt Service Reserve Accounts (including the value of any Authorised Investments) are equal to the next 12 months' interest and other finance charges forecast to be due on the Class A Debt and Unsecured TWUF Bond Debt of the TWU Financing Group (the "**Class A Required Balance**"); and

(b) the aggregate of (i) all amounts available for drawing in respect of Class B Debt under the DSR Liquidity Facilities; and (ii) all amounts standing to the credit of the Class B Debt Service Reserve Accounts (including the value of any Authorised Investments) (after deducting all amounts required to satisfy the Class A Required Balance) are equal to the next 12 months' interest and other finance charges forecast to be due on the Class B Debt (other than any Subordinated Step-up Fee Amounts) of the TWU Financing Group (the "**Class B Required Balance**" and, together with the Class A Required Balance, the "**Required Balance**").

Compensation Account

The Common Terms Agreement requires TWUL to ensure that any amounts required under the terms of the Common Terms Agreement to be deposited into the Compensation Account following a notice of termination from a Hedge Counterparty are so deposited. The Common Terms Agreement provides that TWUL may only withdraw amounts from the Compensation Account in meeting termination sums due under the relevant Hedging Agreement and/or in paying to the Operating Accounts any amount deposited which is, at any time, in excess of the amount required to be so deposited.

Authorised Investments

TWUL and the Issuer are permitted, in accordance with the CTA, to invest in certain Authorised Investments such part of the amounts standing to the credit of any of the Accounts.

Cash Management during a Standstill Period

The arrangements described in the section "*Debt Service Payment Account*" above continue to apply until the commencement of a Standstill Period. The CTA provides that, so long as a Standstill Period continues unremedied, and provided no Enforcement Action (other than a Permitted Share Pledge Acceleration) has occurred, TWUL shall cease to be the Cash Manager and will be replaced by the Standstill Cash Manager, who shall assume control of the Accounts, pay operating expenditure when it falls due and, on a monthly basis, calculate the aggregate of all payments falling to be made during the next following period of 12 months and shall calculate all net revenues received and/or expected to be

received over that 12 month period. To the extent that the forecast revenues are insufficient (after paying all relevant operating expenditure) to pay the aggregate of all payments falling to be made during the next 12 months, the Standstill Cash Manager shall notionally apply those forecast revenues to each category in accordance with the Payment Priorities until the revenue that is forecast to be available is insufficient to meet all of the payments falling to be made within such 12 month period in any sub-paragraph of the Payment Priorities (the "**Shortfall Paragraph**") and shall, in respect of those categories of payment falling within the Shortfall Paragraph, divide the anticipated revenues remaining pro-rata between those amounts. Throughout the Standstill Period, any payments falling to be made within a category of payment falling within a Shortfall Paragraph shall be satisfied by a payment of the pro-rata share of that payment so calculated and no payments falling in a category which (in accordance with the Payment Priorities) falls after a Shortfall Paragraph shall be made (and the balance of the payments not made shall remain outstanding).

The proceeds of enforcement of the Security which is permitted to be enforced during a Standstill Period will also be applied in accordance with the Payment Priorities. In circumstances where such enforcement occurs during a Standstill Period or following termination of a Standstill the proceeds of enforcement will be applied in accordance with the above Payment Priorities but excluding in these circumstances payments under sub-paragraphs (i), (x), (xi) and (xv) thereof.

Additionally during a Standstill Period the Annual Finance Charge pertaining to any Finance Leases will be adjusted in accordance with the terms of the relevant Finance Lease.

Security Agreement

Security

Each Obligor has entered into the security agreement dated the Initial Issue Date (the "**Security Agreement**") with the Security Trustee pursuant to which TWH guarantees the obligations of each other Obligor under the Finance Documents and TWUL, TWUF, TWUCFH and the Issuer guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee as security trustee for the Secured Creditors. Each Obligor secures its property, assets and undertakings to the Security Trustee as trustee for the Secured Creditors. However, in respect of TWUL, the creation, perfection and enforcement of such security is subject to the WIA, the Instrument of Appointment and requirements thereunder. The Security Agreement incorporates, to the extent applicable, the provisions of the CTA and is subject to the STID.

The security constituted by the Security Agreement is expressed to include, amongst other things:

(a) first fixed charges over:

   (i) the shares in TWUL, TWUCFH, TWUF and the Issuer;

   (ii) each Obligor's right, title and interest from time to time in and to certain land and other real property and the proceeds of any disposal thereof;

   (iii) all present and future plant, machinery, office equipment, computers, vehicles and other chattels;

   (iv) all moneys standing to the credit of each Obligor's bank accounts;

   (v) certain Intellectual Property Rights owned by each Obligor;

   (vi) each Authorised Investment;

   (vii) all shares of any person owned by the Obligor including all dividends, interest and other monies payable in respect thereof and all other rights related thereto;

   (viii) all present and future book debts;

(ix) all benefit in respect of certain insurances;

(b) an assignment of each Obligor's right in respect of all Transaction Documents; and

(c) a first floating charge of the whole of the undertaking of each Obligor,

except that the Security does not include any security over Protected Land (see Chapter 6, "*Regulation of the Water and Wastewater Industry in England and Wales*" under "Protected Land") or any of TWUL's other assets, property and rights to the extent, and for so long as, the taking of any such security would contravene the terms of the Instrument of Appointment and requirements thereunder or the WIA or any other applicable law.

For a description of certain limitations on the ability of TWUL to grant security and certain limitations and restrictions on the security purported to be granted, see Chapter 4 "Risk Factors - Certain Legal Considerations - Security" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales* - Restrictions on the granting of security".

Prior to an Event of Default, notices of assignment will only be given to the relevant counterparty to the Transaction Documents that are assigned and to the insurers with whom TWUL has taken out insurance in accordance with the requirements of the CTA (subject to certain agreed exceptions). Following an Event of Default, notices of assignment will be given in respect of any assigned contract or asset as requested by the Security Trustee upon the instructions of the Majority Creditors.

Any Permitted Subsidiary acquired or established by TWUL following the Initial Issue Date is required to accede to the Security Agreement as an Obligor. Accordingly, TWUCFH acceded to the Security Agreement as an Obligor on 15 October 2007.

Security Structure

The following shows the security provided by the TWU Financing Group in favour of the Security Trustee on behalf of the Secured Creditors:

SECURITY		GUARANTEE
Fixed and floating charge Principal secured asset is its holding of shares in TWUL	TWH	Guarantees all obligations of TWUL, TWUF, TWUCFH and the Issuer under the Finance Documents
Fixed and floating charge over its property, assets and undertaking, all subject to the WIA and the Instrument of Appointment	TWUL	Guarantees all obligations of TWUF, TWUCFH and the Issuer under the Finance Documents
Fixed and floating charge	TWUF	Guarantees all obligations of TWUL, TWUCFH and the Issuer under the Finance Documents
Fixed and floating charge	TWUCFH	Guarantees all obligations of TWUL, TWUF and the Issuer under the Finance Documents
Fixed and floating charge	ISSUER	Guarantees all obligations of TWUL, TWUCFH and TWUF under the Finance Documents

Financial Guarantor Documents

The Financial Guarantees of Wrapped Bonds

The form of Financial Guarantee to be issued by each Financial Guarantor (upon fulfilment or waiver by the Relevant Financial Guarantors of certain conditions precedent to be contained in the CP Agreement) in respect of the issue of Wrapped Bonds to be issued under the Programme will be set out in a supplement to this Prospectus.

Upon an early redemption of the relevant Wrapped Bonds or an acceleration of the relevant Wrapped Bonds, each Relevant Financial Guarantor's obligations will continue to be to pay the Guaranteed Amounts as they fall Due for Payment (each as defined in the Relevant Financial Guarantor's Financial Guarantee) on each Payment Date. None of the Financial Guarantors will be obliged under any circumstances to accelerate payment under its Financial Guarantees. However, if it does so, it may do so in its absolute discretion in whole or in part, and the amount payable by the Relevant Financial Guarantor will be the Outstanding Principal Amount (or pro rata amount that has become due and payable) of the relevant Wrapped Bonds together with accrued interest (excluding always the FG Excepted Amounts). Any amounts due in excess of such Outstanding Principal Amount (and any accrued interest thereon) will not be guaranteed by any Financial Guarantor under any of the Financial Guarantees.

The Bond Trustee as party to each of the Financial Guarantees will have the right to enforce the terms of such Financial Guarantees, and any right of any other person to do so is expressly excluded.

Guarantee and Reimbursement Deeds

On each relevant Issue Date, the Issuer, TWUF and TWUL will enter into a guarantee and reimbursement deed (each a "**G&R Deed**") with the relevant Financial Guarantor, pursuant to which the Issuer will be obliged, among other things, to reimburse such Financial Guarantor in respect of the payments made by it under the relevant Financial Guarantee and to pay, among other things, any financial guarantee fee and fees and expenses of such Financial Guarantor in respect of the provision of the relevant Financial Guarantee. Insofar as a Financial Guarantor makes payment under the relevant Financial Guarantee in respect of Guaranteed Amounts (as defined in such Financial Guarantee), it will be subrogated to the present and future rights of the relevant Wrapped Bondholders against the Issuer in respect of any payments made.

Additional Resources Available

Existing Finance Leases

This section summarises the principal provisions contained in the Existing Finance Leases. The Finance Documents also permit TWUL to enter into new Finance Leases in the future, subject to certain limits, and provided that any new Finance Lessor accedes to the CTA and the STID.

Supply of Equipment

Certain leasing companies have acquired equipment and TWUL has sold or otherwise procured the supply of certain equipment to leasing companies (or, in respect of Equipment which constitutes Fixtures (as defined below), has been reimbursed for capital expenditure in respect thereof), in each case for the purpose of TWUL leasing such equipment from the leasing companies.

The Equipment acquired by or sold or supplied to such leasing companies consists mainly of plant and machinery and other equipment used in the water and sewerage operations of TWUL. The Equipment is comprised of moveable equipment ("**Moveables**") and fixed equipment (that is Equipment which is so installed or affixed to real estate so as to become part of that real estate as a matter of law ("**Fixtures**")).

Lease Agreements

The Existing Finance Lessor leases the Equipment sold or supplied to TWUL on the terms and subject to the conditions set out in the lease agreements referred to below, between TWUL as lessee and the respective leasing company as lessor (each a "**Existing Finance Lease**" and together the "**Existing Finance Leases**").

TWUL is currently party to the Existing Finance Leases with the following finance lessors: (a) Commerzbank AG London Branch (as assignee of the "lessor" rights thereunder from RBLS (as defined below)); (b) Commerzbank AG London Branch (as assignee of the "lessor" rights thereunder from RBSSAF (as defined below) (previously known as SG Leasing (Finance) Limited) which received such rights from SG Leasing (March) Limited ("**SGLM**"), which in turn received such rights from Cheriton Resources 13 Limited ("**CRL**", previously known as Abbey National March Leasing (1) Limited)) (the relevant Finance Lease referred to herein as the "**TWUL 1993 Existing Finance Lease**") and (c) Commerzbank AG London Branch (as assignee of the "lessor" rights thereunder from RBSSAF (as defined below) which in turn received such rights from CRL) the relevant Finance Lease referred to herein as the "**TWUL 1995 Existing Finance Lease**").

On 17 December 2010, R.B. Leasing (September) Limited (referred to herein as "**RBLS**" and the finance lease under which it is lessor referred to herein as the "**TWUL 1998 Existing Finance Lease**") assigned the TWUL 1998 Existing Finance Lease to RBSSAF (28) Limited ("**RBSSAF**"). On 20 December 2010, the entire issued share capital of RBSSAF was sold by Royal Bank Leasing Limited (part of the RBS group) to Commerzbank Leasing Holdings Limited. The Existing Finance Leases were assigned by Commerzbank Leasing Holdings Limited to Commerzbank AG London Branch.

It should be noted that the "lessor" entity under the TWUL 1993 Existing Finance Lease and the TWUL 1995 Existing Finance Lease has evolved considerably. In 2002 the then current lessor under each of these transactions (being CRL) was sold by Abbey National Treasury Services plc ("**ANTS**") to Cheriton Resources 2 Limited ("CRL 2", part of the Eurotunnel Group). Subsequently in 2006 these leasing transactions were assigned to SGLM and RBSSAF (both subsidiaries of Société Générale). Most recently the TWUL 1993 Existing Finance Lease held by SGLM was assigned to RBSSAF and the shares in RBSSAF were subsequently purchased by Royal Bank Leasing Limited (part of the RBS group). Broadly on each change of ownership and lease transfer, residual indemnity and payment rights in respect of the periods prior to the relevant change of ownership or lease assignment as the case may be, have been retained by the selling group or transferring the lessor.

In relation to Equipment leased under the Existing Finance Leases that constitutes Fixtures, because, as a matter of real estate law, no title can pass to the relevant Existing Finance Lessor (or, if it does, that title reverts to the landowner on affixation to real estate of the relevant Equipment), TWUL and each relevant Existing Finance Lessor has elected for capital allowance purposes to deem that ownership of the Fixtures is in that Existing Finance Lessor.

Lease Periods

The primary period under the TWUL 1993 Existing Finance Lease and the TWUL 1995 Existing Finance Lease is 20 years from the relevant start date thereunder (being 1 April 1993 for the TWUL 1993 Existing Finance Lease and 1 April 1995 for the TWUL 1995 Existing Finance Lease) and the leasing thereunder is automatically extended into a secondary period up to the fiftieth anniversary of the date of the TWUL 1993 Existing Finance Lease or the TWUL 1995 Existing Finance Lease(or until the expiry of the useful life of the Equipment leased thereunder, whichever is the earlier), subject to the right of TWUL to specify by notice at the end of the relevant primary period (and each annual anniversary of such date thereafter) that some or all of the Equipment leased thereunder shall terminate and shall no longer be subject to the terms of the TWUL 1993 Existing Finance Lease or the TWUL 1995 Existing Finance Lease respectively.

Under the TWUL 1998 Existing Finance Lease, the primary period for Equipment constituting Fixtures is 20 years from 31 October 1998 and the leasing thereunder is automatically extended into a secondary period for a further 20 years (or until the expiry of the useful life of such Equipment, whichever is the earlier) subject to the right of TWUL to specify by notice at the end of the primary period (and each annual anniversary of such date thereafter) that some or all of such Equipment shall terminate and shall

no longer be subject to the terms of the TWUL 1998 Existing Finance Lease. In respect of Equipment constituting Moveables, the primary period under the TWUL 1998 Existing Finance Lease is 10 years from 31 October 1998 and the leasing thereunder is automatically extended into a secondary period for a further 10 years (or until the expiry of the useful life of such Equipment, whichever is the earlier), subject to the right of TWUL to specify by notice at the end of the primary period (and each annual anniversary of such date thereafter) that some or all of such Equipment shall terminate and shall no longer be subject to the terms of the TWUL 1998 Existing Finance Lease.

Subject to CTA and STID

Prior to the Initial Issue Date, each Existing Finance Lease was amended so as to be subject to the CTA. In this way the representations, warranties, covenants and events of default set out in the CTA apply in respect of the Existing Finance Lessor for each Existing Finance Lease. The Existing Finance Lease are also subject to the STID which regulates the claims of the Existing Finance Lessor against TWUL and termination and enforcement rights under the Existing Finance Lease. Certain of the material terms of the Existing Finance Leases (in addition to those incorporated in the CTA) are outlined below (see the section "*TWUL Obligations*").

Rental

TWUL is obliged to make regular rental payments ("**Rental**") under each Existing Finance Lease, payable annually in advance in the amounts determined in the relevant financial schedule to each such Existing Finance Lease. The Rental payment obligations are "hell and high water" payment obligations.

The primary period Rental payable under each of the Existing Finance Leases is calculated by reference to a number of assumptions and principles (including a specified assumed rate of interest). If any such assumption proves to be incorrect, the primary Rental payments under the relevant Existing Finance Leases are adjusted to levels that seek to (or, if all those Rentals have been paid additional Rentals or rebates of Rental are made in order to) preserve the relevant Existing Finance Lessor's agreed after-tax rate of return on its acquisition cost of the Equipment under that Existing Finance Lease.

The assumptions set out in each of the Existing Finance Leases are the type of tax and financial assumptions customarily found in leases of this kind and include, amongst other things, matters such as the rate of corporation tax, the rate of writing down allowances, the amount of group relief on tax losses which may be claimed by the lessor group and other changes in applicable law or regulation.

It should be noted that in respect of each of the TWUL 1993 Existing Finance Lease and the TWUL 1995 Existing Finance Lease, TWUL has ongoing tax consultation obligations and repayment/rebate obligations in respect of the period prior to the sale of CRL to CRL 2. These broadly relate to historical tax assumptions proving incorrect and are owed to CRL and ANTS.

On the last day of the primary period under any Existing Finance Lease, TWUL is required to make the following payments:

(a) a capital sum to the relevant Existing Finance Lessor, equal to the tax written-down value of the Equipment leased thereunder which comprises Fixtures and the leasing of which is continuing into the relevant secondary period: and

(b) an additional Rental to the relevant Existing Finance Lessor in respect of such Equipment leased thereunder which does not comprise Fixtures and the leasing of which is continuing into the relevant secondary period, such Rental being broadly such amount as is required to ensure that the relevant Existing Finance Lessor's surplus and invested funds are zero as at a specified final date. The TWUL 1998 Existing Finance Lease extends this additional Rental to include Equipment constituting Fixtures and Specified Equipment (see the section "*Repossession of Moveables on Termination*" below), the leasing of which is continuing into secondary period thereunder.

The Rental payments payable during any secondary period under each Existing Finance Lease are also set out in the relevant financial schedule relating thereto. Broadly these are nominal sums.

General Payment Obligations

During the construction phase (or pre-primary period) under each Existing Finance Lease, certain commitment fees and non-utilisation fees were payable. These fees are no longer applicable.

Default interest is payable under each Existing Finance Lease in respect of any late payment.

If TWUL is required by law to make any withholding or deduction in respect of any payment under an Existing Finance Lease, then TWUL is required to pay such additional amounts as will result in the receipt by the relevant Existing Finance Lessor of such net amount that the relevant Existing Finance Lessor would have received if no such withholding or deduction had been required. Each Finance Lease provides, in general terms, that if the relevant Existing Finance Lessor has received or has been granted a credit against, remission from or repayment of any tax which is attributable to such additional amounts payable by TWUL then the relevant Existing Finance Lessor shall reimburse such amount as will leave the Existing Finance Lessor after such reimbursement in no worse a position than it would have been if the additional amount had not been payable by TWUL.

Under each of the Existing Finance Leases, TWUL is obliged to pay, on demand, (i) all costs and expenses of the relevant Existing Finance Lessor in connection with the amendment or waiver of the Existing Finance Lease documents, (ii) all costs and expenses of such Existing Finance Lessor arising from its enforcement of its rights under the Existing Finance Leases and (iii) all costs and expenses of the relevant Existing Finance Lessor incurred in respect of a breach by TWUL of its representations, warranties and covenants. Additionally TWUL is obliged to pay all costs, expenses, losses etc. and outgoings in connection with the Equipment leased thereunder.

TWUL Obligations

In addition to the representations and warranties made by TWUL, and the covenants applying to TWUL under the CTA, the Existing Finance Leases also impose certain customary finance lease representations, warranties and covenants on TWUL.

In particular, TWUL is typically required, in accordance with the Existing Finance Leases, amongst other things, (i) to maintain, service, repair and overhaul the Equipment, (ii) to notify the Lessor of any damage or loss in relation to the Equipment which is likely to impair TWUL's ability to comply with its obligations under the relevant Existing Finance Leases, or the repair of which is likely to cost in excess of certain thresholds, (iii) to maintain all necessary certificates, licences and permits required for the use of the Equipment and in any event to use the Equipment in accordance with TWUL's customary practice as a prudent and responsible water and sewerage undertaker, and otherwise in accordance with all applicable laws and regulations, (iv) not to remove, replace or alter the Equipment other than as permitted under the relevant Existing Finance Leases, (v) to maintain (in some instances up to and including the third anniversary of the sale or disposal of such Equipment) third party liability insurances and loss and damage insurance, in respect of the Equipment in accordance with good and prudent water and sewage industry practise in the United Kingdom and (vi) not to permit or take certain actions which prejudice the relevant Existing Finance Lessor's interest in the Equipment or the relevant Existing Finance Leases.

General Indemnities

Each Existing Finance Lease contains a general indemnity whereby TWUL agrees to indemnify the relevant Existing Finance Lessor against, *inter alia*, any and all losses, payments or damages (i) which TWUL has agreed to pay under the relevant Existing Finance Lease and which are claimed against and paid by the Existing Finance Lessor, (ii) incurred by the Existing Finance Lessor as a result of TWUL's failure to comply with its obligations under the relevant Existing Finance Lease, (iii) relating to, or arising out of, *inter alia*, the condition, use and operation of, or otherwise in connection with, the Equipment and (iv) arising out of any infringement of intellectual property rights. The indemnities do not apply in the case of any losses which result from the negligence or wilful default of the Existing Finance Lessor.

The indemnities in favour of each Existing Finance Lessor are stated to continue notwithstanding the termination of the leasing of the relevant Equipment, the repudiation of the relevant Finance Lease or the expiry of the relevant lease period.

It should be noted that under the TWUL 1993 Existing Finance Lease and the TWUL 1995 Existing Finance Lease, the general indemnity provisions were effectively extended also to cover the financier and lease administrator of CRL. These provisions remain in place.

Tax Indemnities

Under each of the Existing Finance Leases, TWUL is required to indemnify the Existing Finance Lessors for (broadly) all tax liabilities arising in relation thereto other than corporation tax payable on the Rental and termination payments, either by way of variation of the Rental payment amounts (see the section “Rental” above) or by contractual indemnity payments.

Additional Termination Provisions under Existing Finance Leases

Each of the Existing Finance Leases contains termination provisions in addition to the Events of Default set out in the CTA. These include the automatic termination of the hiring of any Equipment which is the subject of a total loss and, in respect of the TWUL 1998 Existing Finance Lease only, the right of the Existing Finance Lessor to terminate if the TWUL 1998 Existing Finance Lease becomes invalid, ineffective or unenforceable for any reason, the result of which, in the reasonable opinion of the Existing Finance Lessor, materially and adversely prejudices the ability of TWUL to perform its obligations under the TWUL 1998 Existing Finance Lease. In these circumstances, subject to the terms of the CTA, the STID and the Existing Finance Leases (as amended and supplemented from time to time), the leasing of the Equipment shall (in the case of an event of total loss) or may, at the option of the Existing Finance Lessor (in the case the invalidity, ineffectiveness or unenforceability of the TWUL 1998 Existing Finance Lease only) be terminated and the Existing Finance Lessor shall charge a termination sum, save that TWUL in each case will not make any payment if (i) an Acceleration of Liabilities has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment. If TWUL fails or is unable to make any prepayment in accordance with the CTA and the STID, an Event of Default will arise under the CTA and upon notice of that event to the Security Trustee the Standstill Period will automatically commence.

TWUL may voluntarily terminate the leasing of all or part (subject to specified minimum thresholds) of the Equipment under any Existing Finance Lease and pay, *inter alia*, all Rentals due thereunder in advance of the expiry of the relevant lease period providing that (i) no Acceleration of Liabilities has occurred and (ii) no Default Situation is subsisting or would occur as a result of such payment.

The Existing Finance Leases provide that upon termination, a termination payment becomes payable as calculated pursuant to the financial schedule attached to the relevant Existing Finance Lease. The termination payment payable is calculated by reference to a number of assumptions which if subsequently proven to be incorrect may give rise to a further payment or a rebate in the future.

In the Existing Finance Leases termination payments may vary according to the termination event which takes place and the date thereof. They are calculated by the production of a revised cash flow as at the date of the relevant termination based upon certain assumptions. Broadly, the termination payment will be an amount equal to (i) sums due and payable under the relevant Existing Finance Lease, (ii) an amount equal to the balance of the relevant Existing Finance Lessor’s investment in the relevant Existing Finance Lease and so as to preserve the Existing Finance Lessor’s net after-tax return, (iii) broken funding costs and (iv) in respect of each of the TWUL 1993 Existing Finance Lease and the TWUL 1995 Existing Finance Lease only, a termination fee in respect of management time at £100 per hour (subject to indexation). Additionally there were termination premium provisions under each Existing Finance Lease, but these are no longer applicable.

Repossession of Moveables on Termination

To the extent the Existing Finance Leases relate to Fixtures there is no ability to repossess the relevant Equipment upon termination (save in limited circumstances under the TWUL 1998 Existing Finance Leases in respect of “Specified Equipment”-see below).

Each Existing Finance Lease provides that upon termination of the hiring of Equipment which constitutes Moveables (hereinafter "**Moveable Equipment**") (and, in the case of the TWUL 1998 Existing Finance Lease only, certain "fixed equipment" which is not then affixed to any real estate, "**Specified Equipment**"), the Existing Finance Lessor may (subject to the special administration provisions - see below) request redelivery of such Moveable Equipment or, where relevant, Specified Equipment, to be offered for sale. If the hiring of the Moveable Equipment (and, where relevant, the Specified Equipment) has been terminated and the relevant Existing Finance Lessor shall not have received all monies due under the relevant Existing Finance Lease, the Existing Finance Lessor shall have the sole right of determining the manner, timing and terms of such disposal and may, but shall not be obliged to, appoint TWUL as its agent for such sale. If the hiring of the Moveable Equipment (and, where relevant, the Specified Equipment) has been terminated and the relevant Existing Finance Lessor has received all monies due under the relevant Existing Finance Lease, TWUL shall be entitled to request that the relevant Existing Finance Lessor appoint TWUL as agent to sell the Moveable Equipment and, where relevant, the Specified Equipment and in each case the relevant Existing Finance Lessor shall reasonably consider such request. If the Moveable Equipment and, where relevant, the Specified Equipment, has not been sold within one year after termination of the hiring under the relevant Existing Finance Lease, the Existing Finance Lessor may require TWUL to dispose of the Moveable Equipment and, where relevant, Specified Equipment and TWUL shall be required to dismantle and sell as scrap such Equipment for the best price it can reasonably obtain. Following the sale or disposal of Moveable Equipment or, where relevant, Specified Equipment, the Existing Finance Lessor shall rebate (by way of rebate of Rentals) an amount equal to ninety nine and one half percent of the net proceeds of such sale (provided that TWUL has paid all sums due under the Existing Finance Lease and termination has not been by reason of a total loss) to TWUL.

Notwithstanding the above, an Existing Finance Lessor may not repossess any Moveable Equipment or, under the TWUL 1998 Existing Finance Lease, Specified Equipment, if an application for a special administration order has been made or a special administration order has been made.

Insurance and Total Loss

Each Existing Finance Lease provides that TWUL is to effect and maintain insurance against third party liability and loss of or damage to the Equipment in accordance with good and prudent water and sewage industry practice in the United Kingdom. Additionally there are a number of standard minimum requirements with which TWUL must ensure the insurances comply. TWUL has limited rights to reinsure itself with Isis Insurance Company Limited.

Upon a total loss of Equipment under any Existing Finance Lease, the leasing of such items thereunder will terminate and TWUL must pay a termination payment (from insurance proceeds or otherwise) within 120 days of the Equipment becoming a total loss, or, if earlier, on the date on which TWUL receives the insurance proceeds in full.

Under each Existing Finance Lease, TWUL bears the full risk of any loss or damage to the Equipment throughout the lease period.

Initial Credit Facility

The Issuer entered into the Initial Credit Facility on the Initial Issue Date (the "**Initial Credit Facility**"). The Issuer subsequently cancelled and repaid the Initial Credit Facility, and entered into a new facility agreement on 18 September 2009 with the Credit Facility Providers on the same terms as the Initial Credit Facility. Under this facility agreement, a revolving credit facility is made available by the Credit Facility Providers to the Issuer which comprises:

(a) a £200 million tranche to fund, pursuant to the Initial Issuer/TWUL Loan Agreement, the working capital requirements of TWUL (including, for the avoidance of doubt, the refinancing of debt) (the "**Working Capital Facility**"); and

(b) a £550 million tranche, to be on-lent to TWUL pursuant to the Initial Issuer/TWUL Loan Agreement, to meet TWUL's capital expenditure requirements (in respect of capital expenditure relating to TWUL in accordance with the capex programme agreed from time to time with Ofwat) from the date the Credit Facility Agreement was entered into until the

final maturity date, being the third anniversary of such date (unless such date is not a Business Day, in which case the preceding Business Day to such day) and to meet the general corporate purposes of TWUL (the "**Capital Expenditure Facility**" and, together with the Working Capital Facility, the "**Credit Facility**").

The Working Capital Facility and the Capital Expenditure Facility are and will be on-lent by the Issuer to TWUL pursuant to the Initial Issuer/TWUL Loan Agreement.

TWUL and the Issuer make representations and warranties, covenants and undertakings to the Credit Facility Providers on the terms set out in the CTA.

The Events of Default under the CTA apply to the Credit Facility (see the section "*Common Terms Agreement*" above).

The ability of the Credit Facility Providers to accelerate any sums owing to it under the Credit Facility upon or following the occurrence of an Event of Default thereunder is subject to the STID.

TWUL and/or the Issuer may enter into further Authorised Credit Facilities on terms similar to those in the Credit Facility. Each additional Authorised Credit Provider will be given the benefit of the Security and will be required to accede to the STID and the CTA.

Existing Authorised Credit Facilities

As at the date hereof, TWUL is party to the Existing Authorised Credit Finance Contracts pursuant to which the Existing Authorised Credit Provider has made available to TWUL the Existing Authorised Credit Facilities. The proceeds of the Existing Authorised Credit Facilities have been applied towards TWUL's capital expenditure requirements.

The Existing Authorised Credit Facilities constitute Class A Debt in respect of which the Existing Authorised Credit Provider is the Class A DIG Representative.

The Events of Default under the CTA apply to the Existing Authorised Credit Facilities (see the section "*Common Terms Agreement*" above).

The ability of the Existing Authorised Credit Provider to accelerate any sums owing to it under the Existing Authorised Credit Facilities upon or following the occurrence of an Event of Default thereunder is subject to the STID.

TWUL may enter into further Authorised Credit Facilities with the Existing Authorised Credit Provider on terms similar to those in the Existing Authorised Credit Facilities.

The Liquidity Facilities

DSR Liquidity Facilities

Each of the Issuer and TWUF entered into (and will renew or enter into equivalent facilities, as appropriate) a DSR Liquidity Facility Agreement on the Initial Issue Date. The Issuer may establish further DSR Liquidity Facilities in connection with the issue of further Bonds and other Class A Debt and Class B Debt issued or incurred. The DSR Liquidity Facilities were renewed in July 2010. In addition to the renewed DSR Liquidity Facilities, the Issuer and TWUF entered into an additional DSR Liquidity Facility on 21 July 2010.

Under the terms of each DSR Liquidity Facility Agreement, the DSR Liquidity Facility Providers provide a 364 day commitment in an aggregate amount specified in the DSR Liquidity Facility Agreement to permit drawings to be made by:

(a) each of the Issuer and TWUF in circumstances where TWUL has or will have insufficient funds in the Debt Service Payment Account available on a Payment Date to pay amounts (other than principal amounts to be repaid in respect of Class A Debt or Class B Debt and

principal amounts to be repaid or any termination payments under any Hedging Agreements) scheduled to be paid in respect of items (i) to (vi) inclusive and, after deducting all payments to be made in priority thereto, items (ix), (xii) and (xix) of the Payment Priorities (a "**Liquidity Shortfall**"); and/or

(b) TWUF where TWUL or TWUF has or will have insufficient funds in the Operating Accounts available on an Unsecured TWUF Bond Payment Date, or otherwise fails on an Unsecured TWUF Bond Payment Date, to pay any amounts (other than principal amounts to be repaid in respect of Unsecured TWUF Bond Debt) scheduled to be paid on such Unsecured TWUF Bond Payment Date in respect of any Unsecured TWUF Bond Debt (an "**Unsecured TWUF Bond Shortfall**").

The proceeds of drawings made by the Issuer or TWUF under the DSR Liquidity Facilities will be on-lent by the Issuer or, as the case may be, TWUF to TWUL under the relevant Issuer/TWUL Loan Agreement or, as the case may be, the TWUF/TWUL Loan Agreements.

The Issuer is not able to make a drawing in respect of a Liquidity Shortfall relating (in whole or in part) to Class B Debt unless the sum of the amount available under the DSR Liquidity Facilities and the amount standing to the credit of the Issuer's Class A Debt Service Reserve Account (immediately after such drawing) is not less than the Class A Required Balance. TWUF is not able to make a drawing in respect of a Liquidity Shortfall relating (in whole or in part) to Class B Debt. Only TWUF is able to make a drawing in respect of an Unsecured TWUF Bond Shortfall.

Unless otherwise agreed by the Issuer, TWUF and the Security Trustee, liquidity in respect of the Class A Debt and Unsecured TWUF Bond Debt will be applied in making payments in respect of Class A Debt or, as the case may be, Unsecured TWUF Bond Debt only and liquidity in respect of Class B Debt will be applied in making payments in respect of Class B Debt only.

O&M Reserve Facility

The Issuer entered into (and will renew or enter into equivalent facilities, as appropriate) the Initial O&M Reserve Facility Agreement on the Initial Issue Date. Under the terms of each O&M Reserve Facility Agreement, the O&M Reserve Facility Providers provide a 364 day liquidity facility in an aggregate amount equivalent to 10 per cent. of TWUL's Projected Operating Expenditure and Capital Maintenance Expenditure for the succeeding 12 months, drawings under which will be on-lent by the Issuer to TWUL to meet TWUL's operating and capital maintenance expenditure requirements to the extent that TWUL has insufficient funds available to it to meet these requirements. The Issuer may establish further O&M Reserve Facilities in connection with the issue of further Bonds and other Class A Debt and Class B Debt issued or incurred.

Each Liquidity Facility Provider must be a bank which as at the relevant Issue Date has the Minimum Short-Term Rating.

Each Liquidity Facility Provider may be replaced at any time **provided that** such Liquidity Facility Provider is replaced by a bank with the Minimum Short-Term Rating and all amounts outstanding to such Liquidity Facility Provider are repaid in full.

Each Liquidity Facility Agreement provides that amounts repaid by the Issuer may be redrawn.

Each Liquidity Facility Agreement provides that if (i) at any time the rating of the relevant Liquidity Facility Provider falls below the Minimum Short-Term Rating, or (ii) the relevant Liquidity Facility Provider does not agree to renew its commitment under such Liquidity Facility prior to the expiry of the relevant availability period, the Issuer will:

(a) use all reasonable endeavours to replace the relevant Liquidity Facility Provider with a party having the Minimum Short-Term Rating; and

(b) (if a replacement is not made within the relevant time period specified in the relevant Liquidity Facility Agreement) be entitled to require such Liquidity Facility Provider to pay into the Debt Service Reserve Account of each of the Issuer and TWUF (in the case of a

DSR Liquidity Facilities) or the Issuer's O&M Reserve Account (in the case of an O&M Reserve Facility) the full amount of the relevant Liquidity Facility Provider's undrawn commitment (a "**Standby Drawing**").

A Standby Drawing will generally be repayable only if the relevant Liquidity Facility Provider is rated with the Minimum Short-Term Rating or confirmation is received from each of the Rating Agencies that either (i) the terms of a replacement Liquidity Facility, or (ii) the absence of any such facility, in each case, as applicable will not lead to a shadow ratings downgrade of the Wrapped Bonds or a credit ratings downgrade of the Unwrapped Bonds from the relevant Rating Agencies.

Interest will accrue on any drawing (including a Standby Drawing) made under the Liquidity Facility provided by a Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Liquidity Facility Agreements, the Issuer and, in the case of the DSR Liquidity Facilities, TWUF are also, in certain circumstances, required to pay additional amounts if (i) a withholding or deduction for or on account of tax is imposed on payments made by it to the relevant Liquidity Facility Provider; or (ii) if the relevant Liquidity Facility Provider suffers an increase in the cost of providing the relevant Liquidity Facility. The Issuer and, in the case of the DSR Liquidity Facilities, TWUF will pay certain agency, arrangement and renewal fees as well as a commitment fee which will accrue on any undrawn portion of the commitments under the Liquidity Facilities.

Upon the enforcement of the Security pursuant to the STID, all indebtedness outstanding under any Liquidity Facility (other than Subordinated Liquidity Facility Amounts) will rank in priority to the Bonds.

Index-linked term facility

On 31 October 2008, TWUL entered into an index-linked term facility of £100,000,000 with Barclays Bank PLC as original lender (the "**Index-linked Term Facility Agreement**"). Under the terms of the Index-linked Term Facility Agreement, the original lender provides a term facility to TWUL to finance the capital expenditure requirements of TWUL.

Hedging

The Hedging Policy provides that the TWU Financing Group must enter into Hedging Agreements in accordance with the Hedging Policy and that the only members of the TWU Financing Group that may enter into Hedging Agreements are TWUL, TWUF and the Issuer.

Existing Hedging Agreements

The Hedging Policy provides, *inter alia*, that:

(a) The TWU Financing Group will not enter into Treasury Transactions for the purpose of speculation, but rather only to manage risk inherent in its business or funding on a prudent basis (which shall include any pre-hedging if thought appropriate).

(b) Any change to the Hedging Policy will be subject to TWUL board approval and may only be made with the approval of the Security Trustee.

(c) Subject to such approvals, the Hedging Policy will be reviewed from time to time by the TWU Financing Group and amended (subject to Entrenched Rights and Reserved Matters and in accordance with the provisions of the STID) as appropriate in line with market developments, regulatory developments, and Good Industry Practice.

(d) The TWU Financing Group must not bear currency risk in respect of any foreign currency denominated debt instruments, or in respect of any foreign currency purchases which, when aggregated with all other foreign currency exposure at the time of such purchase causes the sterling equivalent of foreign currency exposure of the TWU Financing Group to exceed 0.1 per cent. of RCV.

(e) The TWU Financing Group will hedge at least 85 per cent. of its total outstanding debt

liabilities for the current period to the next Periodic Review and at least 75 per cent. in the next period to the subsequent Periodic Review (each as adjusted proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than 5 years) (on a rolling basis) into either index-linked obligations or fixed rate obligations. This figure will be kept under review with respect to market conditions and developments in regulatory methodology and practice. Any proposal to change these figures will be approved by the TWUL board and be subject to the approval of the Security Trustee (such approval not to be unreasonably withheld).

(f) Interest rate risk on floating rate liabilities will be hedged through a combination of cash balances and instruments such as interest rate swaps.

(g) Subject to market constraints and TWUL board approval, the TWU Financing Group will raise debt through the use of index-linked instruments where it is cost effective.

(h) The Issuer, TWUF and TWUL may only enter into Treasury Transactions with counterparties whose short-term, unsecured and unsubordinated debt obligations are assigned a rating by the Rating Agencies which is no less than the minimum required ratings applicable to each Rating Agency as specified in the Hedging Policy or where a parent guarantee is provided by an institution which meets the same criteria. Each Hedging Agreement must include a provision entitling the Issuer, TWUF or, as the case may be, TWUL to terminate if there is a downgrade of the Hedge Counterparty (or guarantor thereof) from such minimum required ratings or certain specified long-term ratings and the relevant Hedge Counterparty has failed to post collateral or take such other steps as may be stipulated in the relevant Hedging Agreement pursuant to the relevant provisions relating to counterparty credit risk in accordance with the current criteria of S&P and Moody's.

(i) Hedging Agreements must be entered into in the form, as amended by the parties thereto, of the 1992 ISDA Master Agreement (Multicurrency - Cross Border), the 2002 Master Agreement published by ISDA or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

Excluding the Existing Hedging Agreements, as at the date of this Prospectus (and following the Initial Issue Date), TWUL has entered into further Hedging Agreements with each of The Royal Bank of Scotland plc, Morgan Stanley & Co. International plc, BNP PARIBAS, Lloyds TSB Bank plc, National Australia Bank Limited, Deutsche Bank AG, London Branch, Mitsubishi UFJ plc, HSBC Bank plc and Barclays Bank PLC in connection with executed and future swap transactions. TWUL is no longer a party to any Hedging Agreements with Bayerische Landesbank.

The Hedging Agreement listed at point (b) under the definition of "Existing Hedging Agreements" on page 258 below has been novated from Bayerische Landesbank to National Australia Bank Limited.

Termination

The Issuer, TWUF or, as the case may be, TWUL will be entitled to terminate a Hedging Agreement in certain circumstances (including a failure to pay by the Hedge Counterparty, certain insolvency events affecting the Hedge Counterparty and certain rating downgrade events affecting the Hedge Counterparty or any guarantor as the case may be where the relevant Hedge Counterparty has failed to post collateral or take such other steps as may be stipulated in the relevant Hedging Agreement pursuant to the relevant provisions relating to counterparty credit risk in accordance with the current criteria of S&P and Moody's).

The Hedge Counterparty will be entitled to terminate a Hedging Agreement only in certain limited circumstances being:

(a) a failure by the Issuer, TWUF or, as the case may be, TWUL to make payment when due;

(b) certain insolvency events affecting the Issuer, TWUF or, as the case may be, TWUL;

(c) illegality affecting the Hedging Agreement;

(d) certain tax events;

(e) termination of a Standstill Period (except by virtue of remedy or waiver of the relevant Event of Default giving rise to the Standstill Period); and

(f) (subject to the provisions described below) upon the exercise of an option (if applicable) to terminate a Hedging Agreement on the tenth anniversary of the effective date of the relevant hedging transaction or at five yearly intervals thereafter.

The Issuer, TWUF or TWUL may enter into Treasury Transactions with Hedge Counterparties pursuant to which each relevant Hedge Counterparty has the right to terminate the relevant interest rate Treasury Transaction on the tenth anniversary of the effective date of such Treasury Transaction and thereafter no more frequently than at five-yearly intervals provided that, among other things:

(a) the relevant Hedge Counterparty gives the Issuer, TWUF or, as the case may be, TWUL at least one year's prior notice in writing of its intention to exercise such right of termination; and

(b) the aggregate notional amount and/or sterling currency amounts (as applicable) of interest rate Treasury Transactions pursuant to which Hedge Counterparties have such right of termination does not exceed 5 per cent. of RCV.

In the event that a Hedging Agreement or a Treasury Transaction is terminated, a termination payment may be due from the Issuer, TWUF, or as the case may be, TWUL.

Other Finance Documents

Account Bank Agreement

Pursuant to the Account Bank Agreement, the Account Bank agrees to hold the Accounts and operate them in accordance with the instructions of the Cash Manager or Standstill Cash Manager (as applicable). The Cash Manager or Standstill Cash Manager (as applicable) manages the Accounts on behalf of the TWU Financing Group pursuant to the CTA (see the section "**Cash Management**" above).

Registered Office Agreement

Pursuant to a registered office agreement entered into between the Issuer and M&C Corporate Services Limited (now Maples Corporate Services Limited) on 12 July 2007 (the "**Registered Office Agreement**"), Maples Corporate Services Limited and/or Maples and Calder have agreed to provide certain corporate services to the Issuer.

Tax Deed of Covenant

Pursuant to the Tax Deed of Covenant, among other things, all the parties thereto which are members of the Thames Water Group have made representations and given covenants with a view to protecting the Obligors from various tax-related risks.

Under the terms of the Tax Deed of Covenant, each Obligor has given certain representations and covenants as to its tax status and to the effect that, subject to the Obligors' membership of the TWUL VAT Group, it has not taken and, save in certain permitted circumstances, will not take any steps which could reasonably be expected to give rise to a liability to tax for an Obligor where that tax is primarily the liability of another person (a "**Secondary Tax Liability**") and, save in certain permitted circumstances, that it will not take any steps and will procure that no steps are taken which would cause any Obligor to become subject *inter alia* to any charge to corporation tax on chargeable gains under section 179 of the Taxation of Chargeable Gains Act 1992 or to stamp duty land tax as a result of the withdrawal of group relief under paragraph 3 or 9 of schedule 7 to the Finance Act 2003 (each a "**Degrouping Tax Liability**").

Kemble Water Holdings Limited, Kemble Water Limited and the Parent (the "**Covenantors**") have

also represented and covenanted that, other than where liability arises from membership of the TWUL VAT Group, no steps have been taken nor will be taken which might reasonably be expected to give rise to a Secondary Tax Liability in an Obligor, and that they will not take and will procure that no steps are taken which cause an Obligor to be subject to a Degrouping Tax Liability.

Under the Tax Deed of Covenant, Kemble Water Holdings Limited has undertaken to indemnify the Obligors against any Secondary Tax Liability or Degrouping Tax Liability which arises as a result of the breach of the covenants referred to above.

With a view to preventing or mitigating a Secondary Tax Liability or Degrouping Tax Liability arising in an Obligor, the Covenantors and the Obligors (among others) have, under the Tax Deed of Covenant, incurred certain obligations in relation to specified events including changes in ownership of the Obligors. For example, the Tax Deed of Covenant provides that in certain circumstances where it is anticipated that there will be a change of control for tax purposes of TWH and therefore of the Obligors (for example, as a result of the sale of shares in TWH or the Parent), the Parent can be required, as a condition of that sale, to deposit an amount in a trust account equal to the estimated tax liability (if any) arising or likely to arise in an Obligor as a result of the sale. The money deposited could then be used to pay the tax liability of the Obligor.

The TWUL VAT Group (of which TWUL is the representative member) is currently comprised of TWUL, Kemble Water Limited, TWH, Issuer and TWUF. With a view to mitigating the possibility of any Obligor becoming liable (on a joint and several basis or otherwise) for any VAT liability of another person (other than an Obligor), the Obligors and the Covenantors have represented and covenanted that no other person shall become treated as a member of the TWUL VAT Group without the consent of the Security Trustee. Kemble Water Limited has also represented and covenanted that it has not since the date of its incorporation made and will not make any supplies which would be subject to VAT. Kemble Water Holdings Limited also indemnify TWUL or procure that TWUL is indemnified in respect of any Tax liability which TWUL may incur by virtue of any member of the Thames Water Group (other than an Obligor or Kemble Water Limited) having been a member of the TWUL VAT Group.

TWUCFH

On 15 October 2007, TWUCFH acceded to the STID, the CTA, the MDA, the Bond Trust Deed, the Agency Agreement and the Tax Deed of Covenant in accordance with the terms of the STID.

CHAPTER 8
THE BONDS

Terms and Conditions of the Bonds

*The following is the text of the terms and conditions which (subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Final Terms (as defined below) and, save for the italicised paragraphs) will be incorporated into each Global Bond (as defined below) representing Bonds (as defined below) in bearer form, Bonds in definitive form (if any) issued in exchange for the Global Bond(s) representing Bonds in bearer form, each Global Bond Certificate (as defined below) representing Bonds in registered form and each Individual Bond Certificate (as defined below) representing Bonds in registered form (only if such incorporation is permitted by the rules of the relevant stock exchange and agreed by the Issuer). If such incorporation is not so permitted and agreed, each Bond in bearer form and each Individual Bond Certificate representing Bonds in registered form will have endorsed thereon or attached thereto such text (as so completed, amended, varied or supplemented). Further information with respect to each Tranche (as defined below) of Bonds will be given in the relevant Final Terms which will provide for those aspects of these Conditions which are applicable to such Tranche (as defined below) of Bonds, including, in the case of Wrapped Bonds (as defined below), the form of Financial Guarantee (as defined below) and endorsement and, in the case of all Sub-Classes (as defined below), the terms of the relevant advance under the relevant Issuer/TWUL Loan Agreement. If a Financial Guarantor (as defined below) is appointed in relation to any Sub-Class of Wrapped Bonds (as specified in the relevant Final Terms) a supplement to this Prospectus will be produced providing such information about such Financial Guarantor as may be required by the rules of the UK Listing Authority, the London Stock Exchange or such other listing authority or stock exchange on which such Bonds are admitted to listing and/or trading. References in the Conditions to "**Bonds**" are, as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme.*

Thames Water Utilities Cayman Finance Limited (the "**Issuer**") has established a guaranteed bond programme (the "**Programme**") for the issuance of up to £10,000,000,000 guaranteed bonds (the "**Bonds**"). Bonds issued under the Programme on a particular Issue Date comprise a Series (a "**Series**"), and each Series comprises one or more Classes of Bonds (each a "**Class**"). Each Class may comprise one or more sub-classes (each a "**Sub-Class**") and each Sub-Class comprising one or more tranches (each a "**Tranche**").

Certain of the Bonds will be subject to a Financial Guarantee and will be designated as "**Class A Wrapped Bonds**" or "**Class B Wrapped Bonds**". The Bonds which are not subject to a Financial Guarantee will be designated as "**Class A Unwrapped Bonds**" (and, together with the Class A Wrapped Bonds, the "**Class A Bonds**") or "**Class B Unwrapped Bonds**" (and, together with the Class B Wrapped Bonds, the "**Class B Bonds**"). Each Sub-Class will be denominated in different currencies or will have different interest rates, maturity dates or other terms. Bonds of any Class may be zero coupon bonds ("**Zero Coupon Bonds**"), fixed rate bonds ("**Fixed Rate Bonds**"), floating rate bonds ("**Floating Rate Bonds**"), index-linked bonds ("**Indexed Bonds**"), dual currency bonds ("**Dual Currency Bonds**"), partly paid bonds ("**Partly Paid Bonds**") or instalment bonds ("**Instalment Bonds**") depending on the method of calculating interest payable in respect of such Bonds and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law.

The terms and conditions applicable to any particular Sub-Class of Bonds are these terms and conditions ("**Conditions**") as supplemented, amended and/or replaced by a set of final terms in relation to such Sub-Class (a "**Final Terms**"). In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

The Final Terms for the Bonds (or the relevant provisions thereof) supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of the Bonds. Reference to "**Final Terms**" is to the Final Terms (or the relevant provisions thereof) applicable to the Bonds.

The Bonds are subject to and have the benefit of a trust deed dated the Initial Issue Date (as defined

below) (as amended, supplemented, restated and/or novated from time to time, the "**Bond Trust Deed**") between the Issuer, any Financial Guarantor (as defined below) acceding thereto and Deutsche Trustee Company Limited as trustee (the "**Bond Trustee**", which expression includes the trustee or trustees for the time being of the Bond Trust Deed).

The Class A Wrapped Bonds and the Class B Wrapped Bonds (each "**Wrapped Bonds**") alone will be unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest (as adjusted for indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and amounts (if any), in the case of Fixed Rate Bonds or Indexed Bonds (other than deferred interest), representing step-up fees at a rate specified in the relevant Final Terms in excess of the initial Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(i) (*Definitions*), and, in the case of Floating Rate Bonds, representing step-up fees at a rate specified in the relevant Final Terms in excess of the initial Margin on the Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(i) (*Definitions*)) (in each case, the "**Subordinated Step-up Fee Amounts**"), all such amounts being the "**FG Excepted Amounts**") pursuant to a financial guarantee (each, a "**Financial Guarantee**") to be issued by financial guarantors (each a "**Financial Guarantor**") in conjunction with the issue of each Sub-Class of Bonds.

Neither of the Class A Unwrapped Bonds or the Class B Unwrapped Bonds (each "**Unwrapped Bonds**") will have the benefit of any such Financial Guarantee.

The Bonds have the benefit (to the extent applicable) of an agency agreement (as amended, supplemented and/or restated from time to time, the "**Agency Agreement**") dated the Initial Issue Date (to which the Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents (in the case of Bearer Bonds) or the Transfer Agents and the Registrar (in the case of Registered Bonds) are party). As used herein, each of "**Principal Paying Agent**", "**Paying Agents**", "**Agent Bank**", "**Transfer Agents**" and/or "**Registrar**" means, in relation to the Bonds, the persons specified in the Agency Agreement as the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity. The Bonds may also have the benefit (to the extent applicable) of a calculation agency agreement (in the form or substantially in the form of Schedule 1 to the Agency Agreement, the "**Calculation Agency Agreement**") between, *inter alios*, the Issuer and any calculation agent appointed by the Issuer as calculation agent (the "**Calculation Agent**").

On 30 August 2007 (the "**Initial Issue Date**"), the Issuer entered into a security agreement (the "**Security Agreement**") with Deutsche Trustee Company Limited as security trustee (the "**Security Trustee**"), pursuant to which the Issuer granted certain fixed and floating charge security (the "**Issuer Security**") to the Security Trustee for itself and on behalf of the Bond Trustee (for itself and on behalf of the Bondholders), the Bondholders, each TWUF Bond Trustee (for itself and on behalf of the relevant Secured TWUF Bondholders), the Secured TWUF Bondholders, each Financial Guarantor, the Issuer, TWUF, each Liquidity Facility Provider, any Liquidity Facility Arrangers, each Finance Lessor, the Hedge Counterparties, the Liquidity Facility Agents, the Initial Credit Facility Agent, the Initial Credit Facility Providers, each Authorised Credit Provider (as defined below), each Agent, the Account Bank, the Cash Manager (other than when the Cash Manager is TWUL), the Standstill Cash Manager and any Additional Secured Creditors (each as defined therein) (together with the Security Trustee, the "**Secured Creditors**"). On the Initial Issue Date, the Issuer entered into a Security Trust and Intercreditor Deed (the "**STID**") with, among others, the Security Trustee, other Secured Creditors and certain Secondary Market Guarantors and pursuant to which the Security Trustee holds the Security on trust for itself and the other Secured Creditors and the Secured Creditors and the Secondary Market Guarantors agree to certain intercreditor arrangements.

On 24 August 2007 the Issuer entered into a dealership agreement (as amended, supplemented and/or restated from time to time, the "**Dealership Agreement**") with the dealers named therein (the "**Dealers**") in respect of the Programme, pursuant to which any of the Dealers may enter into a subscription agreement in relation to each Sub-Class of Bonds issued by the Issuer, and pursuant to which the Dealers have agreed to subscribe for the relevant Sub-Class of Bonds. In any subscription agreement relating to a Sub-Class of Bonds, any of the Dealers may agree to procure subscribers to subscribe for the relevant Sub-Class of Bonds.

On the Initial Issue Date, the Issuer entered into a Common Terms Agreement (the "**Common Terms**

Agreement") with, among others, the Security Trustee, pursuant to which the Issuer makes certain representations, warranties and covenants and which sets out in Schedule 7 thereof the Events of Default (as defined therein) in relation to the Bonds.

The Issuer has entered or may enter into liquidity facility agreements (together, the "**Liquidity Facility Agreements**") with certain liquidity facility providers (together, the "**Liquidity Facility Providers**") pursuant to which the Liquidity Facility Providers agree to make certain facilities available to meet liquidity shortfalls (including debt service liquidity shortfalls and shortfalls in operating and maintenance expenditure of TWUL).

The Issuer has entered or may enter into certain revolving credit facilities (together, the "**Authorised Credit Facilities**") with certain lenders (the "**Authorised Credit Providers**"), pursuant to which the Authorised Credit Providers agree to make certain facilities available to the Issuer for the purpose of funding certain working capital, capital expenditure and other expenses of the TWU Financing Group.

TWUL and/or the Issuer and/or TWUF may enter into certain currency, index linked and interest rate hedging agreements (together, the "**Hedging Agreements**") with certain hedge counterparties (together the "**Hedge Counterparties**") in respect of certain Sub-Classes of Bonds and Authorised Credit Facilities, pursuant to which the Issuer, TWUF or TWUL, as the case may be, hedges certain of its currency, index linked and interest rate obligations.

The Bond Trust Deed, the Bonds (including the applicable Final Terms), the Secured TWUF Bond Trust Deeds, the Secured TWUF Bonds (including the applicable final terms), the Security Agreement, the STID, (the STID, the Security Agreement and any other documentation evidencing or creating security over any asset of an Obligor to a Secured Creditor under the Finance Documents being together the "**Security Documents**"), the Financial Guarantee Fee Letters, the Finance Lease Documents, the Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Initial Credit Facility Agreement, the Issuer/TWUL Loan Agreements, the TWUF/TWUL Loan Agreements, the TWUL/TWH Loan Agreement, the G&R Deeds, the Financial Guarantees, the CTA, the CP Agreement, the Existing Authorised Credit Finance Contracts, any other Authorised Credit Facilities, the master definitions agreement between, among others, the Issuer and the Security Trustee dated the Initial Issue Date (as amended, supplemented and/or restated from time to time, the "**Master Definitions Agreement**"), the account bank agreement between, among others, the account bank, the Issuer and the Security Trustee (the "**Account Bank Agreement**"), the Tax Deed of Covenant, any indemnification deed between, among others, a Financial Guarantor and the Dealers (an "**Indemnification Deed**") and any related security document (each, if not defined above, as defined below or in the Master Definitions Agreement) are, in relation to the Bonds, (and together with each other agreement or instrument between TWUL or the Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by TWUL or the Issuer (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum of such Additional Secured Creditor) together referred to as the "**Finance Documents**".

Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Certain statements in these Conditions are summaries of the detailed provisions appearing on the face of the Bonds (which expression shall include the body thereof), in the relevant Final Terms or in the Bond Trust Deed, the Security Agreement or the STID. Copies of, *inter alia*, the Finance Documents are available for inspection during normal business hours at the specified offices of the Principal Paying Agent (in the case of bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of registered Bonds), save that, if the Bond is an unlisted Bond of any Sub-Class, the applicable Final Terms will only be obtainable by a Bondholder holding one or more unlisted Bonds of that Sub-Class and such Bondholder must provide evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Bonds and identity.

The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Bond Trust Deed, the STID, the Security Agreement, the CTA and the relevant Final Terms and to have notice of those provisions of the Agency Agreement and the other Finance Documents applicable to them.

Any reference in these conditions to a matter being "**specified**" means as the same may be specified in

the relevant Final Terms.

1 Form, Denomination and Title

(a) Form and Denomination

The Bonds are in bearer form ("**Bearer Bonds**") or in registered form ("**Registered Bonds**") as specified in the applicable Final Terms and, serially numbered in the Specified Denomination(s) provided that in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds). Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination and Registered Bonds may not be exchanged for Bearer Bonds and vice versa. References in these Conditions to "**Bonds**" include Bearer Bonds and Registered Bonds and all Sub-Classes, Classes, Tranches and Series.

Interest-bearing Bearer Bonds are issued with Coupons (as defined below) (and, where appropriate, a Talon, (as defined below)) attached. After all the Coupons attached to, or issued in respect of, any Bearer Bond which was issued with a Talon have matured, a coupon sheet comprising further Coupons (other than Coupons which would be void) and (if necessary) one further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent. Any Bearer Bond the principal amount of which is redeemable in instalments may be issued with one or more Receipts (as defined below) (and, where appropriate, a Talon) attached thereto. After all the Receipts attached to, or issued in respect of, any Instalment Bond which was issued with a Talon have matured, a receipt sheet comprising further Receipts (other than Receipts which would be void) and (if necessary) a further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent.

(b) Title

Title to Bearer Bonds, Coupons, Receipts and Talons (if any) passes by delivery. Title to Registered Bonds passes by registration in the register (the "**Register**"), which the Issuer shall procure to be kept by the Registrar.

In these Conditions, subject as provided below, each "**Bondholder**" (in relation to a Bond, Coupon, Receipt or Talon), "**holder**" and "**Holder**" means (i) in relation to a Bearer Bond, the bearer of any Bearer Bond, Coupon, Receipt or Talon (as the case may be) and (ii) in relation to Registered Bond, the person in whose name a Registered Bond is registered, as the case may be. The expressions "**Bondholder**", "**holder**" and "**Holder**" include the holders of instalment receipts (which, in relation to Class A Bonds will be "**Class A Receipts**", in relation to Class B Bonds, "**Class B Receipts**" and together, the "**Receipts**"), appertaining to the payment of principal by instalments (if any) attached to such Bonds in bearer form (the "**Receiptholders**"), the holders of the coupons (which, in relation to Class A Bonds will be "**Class A Coupons**", in relation to Class B Bonds, "**Class B Coupons**" and together, the "**Coupons**") (if any) appertaining to interest bearing Bonds in bearer form (the "**Couponholders**"), and the expression Couponholders or Receiptholders includes the holders of talons in relation to Coupons or Receipts as applicable, (which, in relation to Class A Bonds will be "**Class A Talons**", in relation to Class B Bonds, "**Class B Talons**" and together, the "**Talons**") (if any) for further coupons or receipts, as applicable attached to such Bonds (the "**Talonholders**").

The bearer of any Bearer Bond, Coupon, Receipt or Talon and the registered holder of any Registered Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the relevant Bond, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed

on the Bond Certificate in respect thereof) and no person will be liable for so treating the holder.

Bonds which are represented by a Global Bond or Global Bond Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

(c) *Fungible Issues of Bonds comprising a Sub-Class*

A Sub-Class of Bonds may comprise a number of issues in addition to the initial Tranche of such Sub-Class, each of which will be issued on identical terms save for the first Interest Payment Date, the Issue Date and the Issue Price. Such further issues of the same Sub-Class will be consolidated and form a Series with the prior issues of that Sub-Class.

2 Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds

(a) *Exchange of Bonds*

Subject to Condition 2(e) (Closed Periods), Bearer Bonds may, if so specified in the relevant Final Terms, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined below) for any payment of interest or Interest Amount (as defined below), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it.

Registered Bonds may not be exchanged for Bearer Bonds.

(b) *Transfer of Registered Bonds*

A Registered Bond may be transferred upon the surrender of the relevant Individual Bond Certificate, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless (i) the principal amount of Registered Bonds proposed to be transferred; and (ii) the principal amount of the Registered Bonds proposed to be the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Specified Denominations (as specified in the relevant Final Terms). In the case of a transfer of part only of a holding of Registered Bonds represented by an Individual Bond Certificate, a new Individual Bond Certificate in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

(c) *Delivery of New Individual Bond Certificates*

Each new Individual Bond Certificate to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled to the Individual Bond Certificate to such address as may be specified in such request or form of transfer. For these purposes, a form of transfer or request for exchange received by the Registrar after the Record Date (as defined below) in respect of any payment due in respect of Registered Bonds shall be deemed not to be

effectively received by the Registrar until the business day (as defined below) following the due date for such payment.

(d) *Exchange at the Expense of Transferor Bondholder*

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(e) *Closed Periods*

No transfer of a Registered Bond may be registered, nor any exchange of a Bearer Bond for a Registered Bond may occur during the period of 15 days ending on the due date for any payment of principal, interest, Interest Amount (as defined below) or Redemption Amount (as defined below) on that Bond.

3 Status of Bonds and Financial Guarantee

(a) *Status of Class A Bonds*

This Condition 3(a) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

The Class A Bonds, Class A Coupons, Class A Talons and Class A Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (Security, Priority and Relationship with Secured Creditors) and rank *pari passu* without any preference among themselves. However, the Class A Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(b) *Status of Class B Bonds*

This Condition 3(b) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class B Bonds.

The Class B Bonds, Class B Coupons, Class B Talons and Class B Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (Security, Priority and Relationship with Secured Creditors), are subordinated to the Class A Bonds, Class A Coupons, Class A Receipts and Class A Talons (if any) and rank *pari passu* without any preference among themselves. However, the Class B Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(c) *Financial Guarantee Issued by Financial Guarantor*

This Condition 3(c) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

Each Sub-Class of each Class of Wrapped Bonds will have the benefit of a Financial Guarantee issued by a Financial Guarantor, issued pursuant to a guarantee and reimbursement deed between, amongst others, the Issuer and a Financial Guarantor dated on or before the relevant Issue Date (as defined below) of such Bonds (each a "**G&R Deed**"). Under the relevant Financial Guarantee, the relevant Financial Guarantor unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled interest and payment of principal (but excluding FG Excepted Amounts) on such Wrapped Bonds, all as more particularly described in the relevant Financial Guarantee.

The terms of the relevant Financial Guarantee provide that amounts of principal on any such Bonds which have become immediately due and payable (whether by virtue of acceleration,

prepayment or otherwise) other than on the relevant Payment Date (as defined under the Financial Guarantee) will not be treated as Guaranteed Amounts (as defined in the Financial Guarantee) which are Due for Payment (as defined in the Financial Guarantee) under the Financial Guarantee unless the Financial Guarantor in its sole discretion elects so to do by notice in writing to the Bond Trustee. The Financial Guarantor may elect to accelerate payments due under the Financial Guarantee in full or in part. All payments made by the relevant Financial Guarantor under the relevant Financial Guarantee in respect of partial acceleration shall be applied (i) to pay the Interest (as defined in the relevant Financial Guarantee) accrued but unpaid on the Principal (as defined in the relevant Financial Guarantee) of such part of the accelerated payment; and (ii) to reduce the Principal (as defined in the relevant Financial Guarantee) (or, in the case of Wrapped Bonds repayable in instalments, each principal repayment instalment on a pro rata basis with a corresponding reduction of each amount of the Interest (as determined in the Financial Guarantee)) outstanding under the relevant Sub-Classes of Wrapped Bonds. If no such election is made, the Financial Guarantor will continue to be liable to make payments in respect of the Bonds pursuant to the relevant Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

To the extent that the early redemption price of any Bonds exceeds the aggregate of the Principal Amount Outstanding of and any accrued interest outstanding on any such Bonds to be redeemed (each as adjusted for indexation in accordance with Condition 7(b) (Application of the Index Ratio), if applicable), payment of such early redemption price will not be guaranteed by the Financial Guarantor under the relevant Financial Guarantee.

(d) *Status of Financial Guarantee*

This Condition 3(d) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

The relevant Financial Guarantee provided by the Financial Guarantor in respect of the Bonds will constitute a direct, unsecured obligation of the Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(e) *Security Trustee not responsible for monitoring compliance*

Subject to certain exceptions, when granting any consent or waiver or exercising any power, trust, authority or discretion relating to or contained in the STID, the other Finance Documents or any Ancillary Documents, the Security Trustee will act in accordance with its sole discretion (where granted such right) or as directed, requested or instructed by or subject to the agreement of the Majority Creditors or, in particular cases, other specified parties and in accordance with the provisions of the STID.

The Security Trustee shall not be responsible for monitoring compliance by TWUL with any of its obligations under the Finance Documents to which it is a party except by means of receipt from TWUL of certificates of compliance which TWUL has covenanted to deliver to the Security Trustee pursuant to the provisions of the CTA and which will state among other things, that no Default is outstanding. The Security Trustee shall be entitled to rely on certificates absolutely unless it is instructed otherwise by the Majority Creditors in which case it will be bound to act on such instructions in accordance with the STID. The Security Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Finance Documents. The Security Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any two Authorised Signatories of any Obligor or any other party to any Finance Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Security Trustee may require to be satisfied. The Security Trustee is in no way bound to call for further evidence

or be responsible for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Security Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

All Bondholders shall (on providing sufficient evidence of identity) be entitled to view a copy of the Periodic Information as and when available to the Security Trustee pursuant to the terms of the CTA and to view a copy of the unaudited interim accounts and audited annual accounts of TWUL within 90 days of 30 September and 180 days of 31 March of each year, respectively.

In addition, each Guarantor has covenanted to provide the Security Trustee with certain additional information (as set out in Schedule 5, Part 1 "Information Covenants" of the CTA). Such information may be published on a website designated by the relevant Guarantor and the Security Trustee.

In the event the relevant website cannot be accessed for technical reasons or is non-operational or is infected by an electronic virus or function software for a period of five consecutive days, all such information set out above which would otherwise be available will be delivered to the Security Trustee in paper form for onward delivery to the Bond Trustee and the Agents. Copies of such information will be available for inspection at the specified office of the Agents and the Bond Trustee.

4 **Security, Priority and Relationship with Secured Creditors**

(a) *Guarantee and Security*

Under the Security Agreement, Thames Water Utilities Holdings Limited ("**TWH**") guarantees the obligations of each other Obligor under the Finance Documents and TWUL, TWUF, TWUCFH and the Issuer will guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee for itself and on behalf of the Secured Creditors (including, without limitation, the Bond Trustee for itself and on behalf of the Bondholders) and secures such obligations upon the whole of its property, undertaking, rights and assets, subject to certain specified exceptions and, in the case of TWUL, to the terms of the Instrument of Appointment (as defined below) and any requirements thereunder or the Act (as defined below). There is no intention to create further security for the benefit of the holders of Bonds issued after the Initial Issue Date. All Bonds issued by the Issuer under the Programme and any additional creditor of the Issuer acceding to the STID will share in the security (the "**Security**") constituted by the Security Documents.

In these Conditions:

the "**Act**" means the United Kingdom Water Industry Act 1991 (as amended); and "**Instrument of Appointment**" means the instrument of appointment dated 1989 as amended under which the Secretary of State for the Environment appointed TWUL as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

"**Obligors**" means TWUL, TWUF, TWH, TWUCFH and the Issuer.

(b) *Relationship among Bondholders and with other Secured Creditors*

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts and authorities, duties and discretions of the Bond Trustee (except where expressly provided or otherwise referred to in Condition 16 (*Bond Trustee Protections*).

The STID provides that the Security Trustee (except in relation to its Reserved Matters and Entrenched Rights and subject to certain exceptions) will act on instructions of the Majority

Creditors (including the Bond Trustee as trustee for and representative of the holders of each Sub-Class of Wrapped Bonds (following the occurrence of an FG Event of Default in respect of the Financial Guarantor of such Wrapped Bonds which is continuing) and the holders of Unwrapped Bonds) and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Bond Trustee as trustee for and representative of the Bondholders or any individual Bondholder) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

(c) *Enforceable Security*

In the event of the Security becoming enforceable as provided in the STID, the Security Trustee shall, if instructed by the Majority Creditors, enforce its rights with respect to the Security, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Bondholder, provided that the Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured to its satisfaction.

(d) *Application After Enforcement*

After enforcement of the Security, the Security Trustee shall (to the extent that such funds are available) use funds standing to the credit of the Accounts (other than the Excluded Accounts) to make payments in accordance with the Payment Priorities (as set out in the CTA).

(e) *Bond Trustee and Security Trustee not liable for security*

The Bond Trustee and the Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the relevant Obligor to the Security, whether such defect or failure was known to the Bond Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Security created under the Security Documents whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security. The Bond Trustee and the Security Trustee have no responsibility for the value of any such Security.

5 Issuer Covenants

So long as any of the Bonds remain Outstanding, the Issuer has agreed to comply with the covenants as set out in Schedule 4 of the CTA.

The Bond Trustee shall be entitled to rely absolutely on a certificate of any director of the Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

6 Interest and other calculations

(a) Interest on Fixed Rate Bonds and Indexed Bonds

This Condition 6(a) is applicable only if the relevant Final Terms specifies the Bonds as Fixed Rate Bonds or Indexed Bonds.

Each Fixed Rate Bond and Indexed Bond bears interest on its Principal Amount Outstanding (or, if it is a Partly Paid Bond, the amount paid up) and, if it is an Indexed Bond, adjusted for indexation in accordance with Condition 7 (*Indexation*)) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Interest Rate(s). Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

For the avoidance of doubt, the amount of interest payable in respect of each Bond shall be the amount of interest payable per Calculation Amount multiplied by the Principal Amount Outstanding of such Bond (or, if it is a Partly Paid Bond, the amount paid up) and divided by the Calculation Amount and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(f) (*Rounding*).

The amount of interest payable per Calculation Amount in respect of any Bond for any Fixed Interest Period shall be equal to the product of the Interest Rate, the Calculation Amount specified, and the Day Count Fraction for such Fixed Interest Period and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(f) (*Rounding*), unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Period, in which case the amount of interest payable per Calculation Amount in respect of such Bond for such Fixed Interest Period shall equal such Interest Amount (or be calculated in accordance with such formula).

Where any Interest Period comprises two or more Fixed Interest Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Fixed Interest Periods.

As used in these Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period or if no Fixed Coupon Amount is specified in the applicable Final Terms, such interest payable per Calculation Amount shall be calculated (i) in the case of Bonds other than Indexed Bonds, by applying the Interest Rate to the Calculation Amount specified, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(f) (*Rounding*) and (ii) in the case of Indexed Bonds, on an Actual/Actual basis.

(b) *Interest on Floating Rate Bonds*

This Condition 6(b) is applicable only if the relevant Final Terms specifies the Bonds as Floating Rate Bonds.

(i) *Interest Payment Dates*

Each Floating Rate Bond bears interest on its Principal Amount Outstanding (or, if it is a Partly Paid Bond, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are expressly specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

For the avoidance of doubt, the amount of interest payable in respect of each Bond shall be the amount of interest payable per Calculation Amount multiplied by the Principal Amount Outstanding of such Bond (or, if it is a Partly Paid Bond, the amount paid up) and divided by the Calculation Amount and rounding the resultant figure to the nearest unit of the

Relevant Currency in accordance with Condition 6(f) (*Rounding*).

(ii) *Interest Rate(s)*

The Interest Rate(s) payable from time to time in respect of the Floating Rate Bonds will be determined in the manner specified in the applicable Final Terms.

(A) If "**Screen Rate Determination**" is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Bonds for each Interest Period will be determined by the Agent Bank (or the Calculation Agent, if applicable) on the following basis:

(1) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank (or the Calculation Agent, if applicable) will determine the Relevant Rate (as defined in Condition 6(i) (*Definitions*));

(2) in any other case, the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the Relevant Rates (as defined in Condition 6(i) (*Definitions*)) which appear on the Page as of the Relevant Time (as defined in Condition 6(i) (*Definitions*)) on the relevant Interest Determination Date;

(3) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank (or the Calculation Agent, if applicable) will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 6(i) (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre (as defined in Condition 6(i) (*Definitions*)) interbank market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(4) if fewer than two such quotations are provided as requested in Condition 6(c)(iii), the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable)) quoted by the Reference Banks at approximately 11.00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the first day of the relevant Interest Period (as defined in Condition 6(i) (*Definitions*)) for loans in the Relevant Currency to

leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 6(i) (*Definitions*)),

and the Interest Rate for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined. However, if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to the Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Bonds in respect of a preceding Interest Period.

(B) If "**ISDA Determination**" is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank (or the Calculation Agent, if applicable) under an interest rate swap transaction if the Agent Bank (or the Calculation Agent, if applicable) were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(1) Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(2) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(i) *(Definitions*); and

(3) the relevant Reset Date (as defined in the ISDA Definitions) is either (1) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period, (2) if the relevant Floating Rate Option is based on EURIBOR, the first day of that Interest Period or (3) in any other case, as specified in the relevant Final Terms.

(iii) *Calculations*

The amount of interest payable in respect of any Floating Rate Bond for each Interest Period shall be calculated by multiplying the product of the Interest Rate and the Calculation Amount specified by the Day Count Fraction (as defined in Condition 6(i)(*Definitions*) and rounding the resultant figure to the nearest unit of the Relevant Currency (rounded in accordance with Condition 6(f) (*Rounding*)).

(c) *Interest on Dual Currency Bonds*

The rate or amount of interest payable in respect of Dual Currency Bonds (other than Dual Currency Bonds which are Zero Coupon Bonds) shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Bonds*

In the case of Partly Paid Bonds (other than Partly Paid Bonds which are Zero Coupon Bonds), interest will accrue as aforesaid on the paid-up nominal amount of such Bonds and otherwise as specified in the applicable Final Terms.

(e) *Minimum Interest Rate and/or Maximum Interest Rate*

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be.

(f) *Rounding*

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

(i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up);

(ii) all figures will be rounded to seven significant figures (with halves being rounded up); and

(iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, "unit" means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(g) *Business Day Convention*

If any date referred to in these Conditions or the relevant Final Terms is specified to be subject to adjustment in accordance with a Business Day convention and (x) if there is no numerically corresponding day on the calendar month in which such date should occur or (y) such date would otherwise fall on a day which is not a Business Day (as defined in Condition 6(i) (*Definitions*)), then if the Business Day Convention specified in the relevant Final Terms is:

(i) the "**Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day;

(ii) the "**Modified Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(iii) the "**Preceding Business Day Convention**", such date shall be brought forward to the immediately preceding Business Day.

(h) *Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank (or the Calculation Agent, if applicable) may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (an "**Instalment Amount**"), obtain any quote or make any determination or calculation, the Agent Bank (or the Calculation Agent, if applicable) will determine the Interest Rate and calculate the Interest Amount for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Condition 7(b) (*Application of the Index Ratio*), calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents or in the case of Registered Bonds, the Registrar,

and, in each case, the Bond Trustee, the Issuer, the Bondholders and the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) as soon as possible after its determination but in no event later than (i) (in case of notification to the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount; or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Sub-Class or Tranche of Bonds are for the time being listed or by which they have been admitted to listing and to the Bondholders in accordance with Condition 17 (*Notices*). If the Bonds become due and payable under Condition 11 (*Events of Default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. If the Calculation Amount is less than the minimum Specified Denomination, the Agent Bank (or the Calculation Agent, if applicable) shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Bond having the minimum Specified Denomination. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Agent Bank (or the Calculation Agent, if applicable) or, as the case may be, the Bond Trustee pursuant to this Condition 6 or Condition 7 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

(i) *Accrual of Interest*

Interest will cease to accrue on each Bond (or, in the case of the redemption of part only of a Bond, that part only of such Bond) on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate in the manner provided in this Condition 6 to the Relevant Date (as defined in Condition 6(i) (*Definitions*)).

(j) *Deferral of interest on Class B Bonds*

This Condition 6(j) is applicable only in relation to Bonds which are specified as being Class B Bonds.

In the case of interest on Class B Bonds only, if, on any Interest Payment Date prior to the taking of Enforcement Action after the termination of a Standstill Period, there are insufficient funds available to the Issuer (after taking into account any amounts available to be drawn under any DSR Liquidity Facility or from the Debt Service Reserve Accounts) to pay such accrued interest, the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 11 (*Cash Management*) of the CTA, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest (including any interest accrued thereon). Interest will accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class B Bonds.

(k) *Agent Bank, Calculation Agent and Reference Banks*

The Issuer will procure that there shall at all times be an Agent Bank (and a Calculation Agent, if applicable) and four Reference Banks selected by the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) with offices in the Relevant Financial Centre if provision is made for them in these Conditions applicable to this Bond and for so long as it is Outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the Agent Bank (or the Calculation Agent, if applicable) is unable or unwilling to act as such or if the Agent Bank (or the Calculation Agent, if applicable) fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint (with the prior written consent of the Bond Trustee) a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(l) *Determination or Calculation by Bond Trustee*

If the Agent Bank (or the Calculation Agent, if applicable) does not at any time for any reason determine any Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or any other amount to be determined or calculated by it, the Bond Trustee shall (without liability for so doing) determine such Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or other amount as aforesaid at such rate or in such amount as in its absolute discretion (having regard as it shall think fit to the procedures described above, but subject to the terms of the Bond Trust Deed and always subject to any Minimum Interest Rate or Maximum Interest Rate specified in the applicable Final Terms) it shall deem fair and reasonable in all the circumstances or, subject as aforesaid, apply the foregoing provisions of this Condition, with any consequential amendments, to the extent that, in its sole opinion, it can do so and in all other respects it shall do so in such manner as it shall, in its absolute discretion, deem fair and reasonable in the circumstances, and each such determination or calculation shall be deemed to have been made by the Agent Bank (or the Calculation Agent, if applicable).

(m) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of Condition 6 (*Interest and Other Calculations*) whether by the Principal Paying Agent, the Agent Bank (or the Calculation Agent, if applicable) or, if applicable, any calculation agent, shall (in the absence of wilful default, negligence, bad faith or manifest error) be binding on the Issuer, TWUL, TWUF, TWH, TWUCFH, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, TWUL, TWUF, TWH, TWUCFH, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, any calculation agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(n) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

"**Broken Amount**" means the amount specified as such in the relevant Final Terms;

"**Business Day**" means:

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally

in London and each (if any) additional city or cities specified in the relevant Final Terms; and

(b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the Relevant Currency (which in the case of a payment in US dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms;

"**Calculation Amount**" has the meaning specified in the relevant Final Terms;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Bond for any period of time (whether or not constituting an Interest Period, the "**Calculation Period**"):

(i) if "**Actual/Actual (ICMA)**" is specified:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period; and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year but excluding the next Determination Date; and

"**Determination Date**" means the date specified as such or, if none is so specified, the Interest Payment Date;

(ii) if "**Actual/Actual**" or "**Actual/Actual (ISDA)**" is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is specified, the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is specified, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30";

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30";

(vii) if "30E/360 (ISDA)" is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

'"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

"**euro**" means the lawful currency of the Participating Member States;

"**Fixed Coupon Amount**" means the amount specified as such in the relevant Final Terms;

"**Interest Amount**" means:

(i) in respect of a Fixed Interest Period, the amount of interest payable per Calculation Amount for that Fixed Interest Period and which, in the case of Fixed Rate Bonds, and unless otherwise specified, shall mean the Fixed Coupon Amount or Broken Amount specified as being payable on the Interest Payment Date at the end of the Interest Period of which such Fixed Interest Period forms part;

(ii) in respect of an Interest Period, the amount of interest payable per Calculation Amount for that Interest Period; and

(iii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Final Terms;

"**Interest Determination Date**" means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the Relevant Currency is sterling the first day of such Interest Period) (as adjusted in accordance with any Business Day Convention (as defined below) specified in the relevant Final Terms);

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Rate**" means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Final Terms;

"**ISDA Definitions**" means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Final Terms, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" means the date specified as such in the relevant Final Terms;

"**Margin**" means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms;

"**Maturity Date**" means the date specified in the relevant Final Terms as the final date on which the principal amount of the Bond is due and payable;

"**Maximum Interest Rate**" means the rate specified as such in the relevant Final Terms;

"**Minimum Interest Rate**" means the rate specified as such in the relevant Final Terms;

"**Page**" means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service ("**Reuters**")) as may be specified in the relevant Final Terms as a Relevant Screen Page, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty establishing the European Communities (as amended), and "**Participating Member States**" means all of them;

"**Principal Amount Outstanding**" means, in relation to a Bond, Sub-Class or Class, the original face value thereof (in relation to any Indexed Bonds, as adjusted in accordance with the Conditions) less any repayment of principal made to the Holder(s) thereof in respect of such Bond, Sub-Class or Class;

"**Redemption Amount**" means, the amount provided under Condition 8(b) (*Optional Redemption*), unless otherwise specified in the relevant Final Terms;

"**Reference Banks**" means the institutions specified as such or, if none, four major banks selected by the Agent Bank (or the Calculation Agent, if applicable) in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable), on behalf of the Issuer, in its sole and absolute discretion;

"**Relevant Currency**" means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated;

"**Relevant Date**" means the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding (adjusted in the case of Indexed Bonds in accordance with Condition 7(b) (*Application of Index Ratio*)) has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Bondholders in accordance with Condition 17 (*Notices*);

"**Relevant Financial Centre**" means, with respect to any Bond, the financial centre specified as such in the relevant Final Terms or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank (or the Calculation Agent, if applicable);

"**Relevant Rate**" means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Final Terms);

"**Relevant Time**" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre;

"**Representative Amount**" means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Final Terms as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified;

"**Specified Denomination**" means the denomination specified in the relevant Final Terms;

"**Specified Duration**" means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant Final Terms or, if none is specified, a period of time equal to the relative Interest Period;

"**Specified Interest Payment Date**" means the date(s) specified as such in the relevant Final Terms.

"**Specified Period**" means the period(s) specified as such in the relevant Final Terms;

"**TARGET Settlement Day**" means any day on which the TARGET system is open for the settlement of payments in euro; and

"**TARGET system**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereto.

7 **Indexation**

This Condition 7 is applicable only if the relevant Final Terms specifies the Bonds as Indexed Bonds.

(a) *Definitions*

"**affiliate**" means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, "control" means control as defined in the Companies Act;

"**Base Index Figure**" means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Final Terms;

"**Calculation Date**" means any date when a payment of interest or, as the case may be, principal falls due;

"**Index**" or "**Index Figure**" means, in relation to any relevant month (as defined in Condition 7(c)(ii) (*Delay in publication of Index*)), subject as provided in Condition 7(c)(i) (*Change in base*), the UK Retail Price Index (RPI) (for all items) published by the Central Statistical Office (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the "**Index Figure applicable**" to a particular Calculation Date shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), and if "3 months lag" is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$IFA = RPI_{m-3} + \frac{\text{(Day of Calculation Date -1)}}{\text{(Days in month of Calculation Date)}} \times (RPI_{m-2} - RPI_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

"**IFA**" means the Index Figure applicable;

"$\mathbf{RPI}_{m-3}$" means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

"$\mathbf{RPI}_{m-2}$" means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the "**Index Figure applicable**" to a particular Calculation Date shall, subject as provided in Condition 7(b) (*Application of the Index Ratio*) below, and if "8 months lag" is specified in the relevant Final Terms, be calculated in accordance with the following formula:

$$IFA = RPI_{m-8} + \frac{\text{(Day of Calculation Date -1)}}{\text{(Days in month of Calculation Date)}} \times (RPI_{m-7} - RPI_{m-8})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

"**IFA**" means the Index Figure applicable;

"$\mathbf{RPI}_{m-8}$" means the Index Figure for the first day of the month that is eight months prior to the month in which the payment falls due;

"$\mathbf{RPI}_{m-7}$" means the Index Figure for the first day of the month that is seven months prior to the month in which the payment falls due;

"**Index Ratio**" applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

"**Limited Index Ratio**" means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

"**Limited Indexation Factor**" means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, **provided that** (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

"**Limited Indexation Month**" means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

"**Limited Indexed Bonds**" means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

"**Maximum Indexation Factor**" means the indexation factor specified as such in the relevant Final Terms;

"**Minimum Indexation Factor**" means the indexation factor specified as such in the relevant Final Terms; and

"**Reference Gilt**" means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Bond Trustee (an "**Indexation Adviser**").

(b) *Application of the Index Ratio*

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Indexed Bonds applicable to the month in which such payment falls to be made and rounded in accordance with Condition 6(f) (*Rounding*).

(c) *Changes in Circumstances Affecting the Index*

(i) Change in base: If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of "Index" and "Index Figure" in Condition 7(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure (being at the Initial Issue Date 178.2) and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) Delay in publication of Index: If the Index Figure relating to any month (the "**relevant month**") which is required to be taken account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Bonds is due (the "**date for payment**"), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as the Bond Trustee considers to have been published by the Bank of England for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Bond Trustee); or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(i) (*Change in base*)) before the date for payment.

(d) *Application of Changes*

Where the provisions of Condition 7(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Bond is still Outstanding, then:

(i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and

(ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) *Cessation of or Fundamental Changes to the Index*

(i) If (1) the Bond Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

(ii) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer and the Bond Trustee or, failing agreement on and the making of such appointment within 20 business days following the expiry of the day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the "**Expert**"), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

(iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Financial Guarantor(s), the other Secured Creditors, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

8 Redemption, Purchase and Cancellation

(a) Partial and Final Redemption

Unless previously redeemed, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Final Terms as having no fixed maturity date, each Bond will be redeemed at its Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)), on the date or dates (or, in the case of Floating Rate Bonds, on the Interest Payment Date(s)) specified in the relevant Final Terms plus accrued but unpaid interest (other than in the case of Zero Coupon Bonds) and, in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*).

In the case of principal on Class B Bonds only, if on any date, prior to the taking of Enforcement Action after the termination of a Standstill Period, on which such Bond is to be redeemed (in whole or in part) there are insufficient funds available to the Issuer to pay such principal, the Issuer's liability to pay such principal will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 11 (*Cash Management*) of the CTA, sufficient funds to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Class A Debt has been paid in full and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred principal (including any accrued interest thereon). Interest will accrue on such deferred principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

(b) *Optional Redemption*

Subject as provided below, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders, the Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Bonds in whole or in part (but on a pro rata basis only) on any Interest Payment Date at their Redemption Amount, **provided that** Floating Rate Bonds may not be redeemed before the date specified in the relevant Final Terms, as follows:

(i) In respect of Fixed Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be an amount equal to the higher of (i) their Principal Amount Outstanding; and (ii) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such UK government stock (or such other stock as specified in the relevant Final Terms for Bonds denominated in currencies other than Sterling) as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(i), "**Gross Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "**Formulae for Calculating Gilt Prices from Yields**" published 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002 (and as further updated, supplemented, amended or replaced from time to time) page 5 or any replacement therefor; "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(b)(i); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms.

(ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be the Principal Amount Outstanding plus

any premium for early redemption in certain years (as specified in the relevant Final Terms) plus any accrued but unpaid interest on the Principal Amount Outstanding.

(iii) In respect of Indexed Bonds, the Redemption Amount will (unless otherwise specified in the relevant Final Terms) be the higher of (i) the Principal Amount Outstanding; and (ii) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market, (selected by the Issuer and approved by the Bond Trustee), determine to be appropriate, plus accrued but unpaid interest (as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(iii), "**Gross Real Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "**Formulae for Calculating Gilt Prices from Yields**" published 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002, page 4 or any replacement therefor, "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under Condition 8(b)(iii); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms.

In any such case, prior to giving any such notice, the Issuer must certify (as further specified in the Finance Documents) to the Bond Trustee that it will have the funds, not subject to any interest (other than under the Security) of any other person, required to redeem the Bonds as aforesaid.

(c) *Redemption for Index Event, Taxation or Other Reasons*

Redemption for Index Events: Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the holders of the Indexed Bonds in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Indexed Bonds of all Sub-Classes on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(b) (*Application of Index Ratio*)) plus accrued but unpaid interest. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Indexed Bonds are also redeemed at the same time and the Issuer has discharged all amounts due and payable to any Financial Guarantor that has issued a Financial Guarantee in respect of such Class or Sub-Class of Indexed Bonds. Before giving any such notice, the Issuer shall provide to the Bond Trustee, the Security Trustee, the Majority Creditors and the relevant Financial Guarantor(s) a certificate signed by an Authorised Signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption and payment to the relevant Financial Guarantor(s).

"**Index Event**" means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) (*Delay in publication of Index*) and the Bond Trustee has been notified by the Principal Paying Agent that publication of the Index has ceased; or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no

amendment or substitution of the Index has been advised by the Indexation Adviser to the Issuer and such circumstances are continuing.

Redemption for Taxation Reasons: In addition, if at any time the Issuer satisfies the Bond Trustee that the Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than in respect of default interest) any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or the Cayman Islands or any political subdivision thereof, or any other authority thereof, then the Issuer may, in order to avoid the relevant deductions or withholding, use its reasonable endeavours to arrange the substitution of a company incorporated under another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds and as lender under the Issuer/TWUL Loan Agreements and as obligor under the Finance Documents upon satisfying the conditions for substitution of the Issuer as set out in the STID (and referred to in Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*)). If the Issuer is unable to arrange a substitution as described above having used reasonable endeavours to do so and, as a result, the relevant deduction or withholding is continuing then the Issuer may (but will not be obliged to), upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Indexed Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)). Before giving any such notice of redemption, the Issuer shall provide to the Bond Trustee, the Security Trustee and the Majority Creditors and the relevant Financial Guarantors a certificate signed by an Authorised Signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds and any amounts under the Security Agreement to be paid in priority to, or *pari passu* with, the Bonds under the Payment Priorities.

(d) *Redemption on Prepayment of Issuer/TWUL Loan Agreements*

If TWUL gives notice to the Issuer under an Issuer/TWUL Loan Agreement that it intends to prepay all or part of any advance made under such Issuer/TWUL Loan Agreement and such advance was funded by the Issuer from the proceeds of the issue of a Sub-Class of Bonds, the Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors, the relevant Financial Guarantors and the Bondholders in accordance with Condition 17 (*Notices*), (where such advance is being prepaid in whole) redeem all of the Bonds of that Sub-Class or (where part only of such advance is being prepaid) the proportion of the relevant Sub-Class of Bonds which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Bonds will be redeemed at their Redemption Amount determined in accordance with Condition 8(b) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Indexed Bonds, for the purposes of this Condition 8(d), "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(d), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

(e) *Early redemption of Zero Coupon Bonds*

Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Bond at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition (e) or, if none is so specified, a Day Count Fraction of 30/360.

In these Conditions, "**Accrual Yield**" and "**Reference Price**" and "**Zero Coupon Bond**" have the meanings given to them in the relevant Final Terms.

(f) *Purchase of Bonds*

The Issuer may, provided that no Event of Default has occurred and is continuing, purchase Bonds (provided that all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

If not all the Bonds which are in registered form are to be purchased, upon surrender of the existing Individual Bond Certificate, the Registrar shall forthwith upon the written request of the Bondholder concerned issue a new Individual Bond Certificate in respect of the Bonds which are not to be purchased and despatch such Individual Bond Certificate to the Bondholder (at the risk of the Bondholder and to such address as the Bondholder may specify in such request).

While the Bonds are represented by a Global Bond or Global Bond Certificate (as defined below), the relevant Global Bond or Global Bond Certificate will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.

(g) *Redemption by Instalments*

Unless previously redeemed, purchased and cancelled as provided in this Condition 8, each Bond which provides for Instalment Dates (as specified in the relevant Final Terms) and Instalment Amounts (as specified in the relevant Final Terms) will be partially redeemed on each Instalment Date at the Instalment Amount.

(h) *Cancellation*

In respect of all Bonds purchased by or on behalf of the Issuer, the Bearer Bonds or the Registered Bonds shall be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

(i) *Instalments*

Instalment Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Redemption Amount will be determined pursuant to Condition 8(b) (*Optional Redemption*) above.

(j) *Partly Paid Bonds*

Partly Paid Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 8(j) and the applicable Final Terms.

9 Payments

(a) Bearer Bonds

Payments to the Bondholders of principal (or, as the case may be, Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts) in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and provided that the Receipt is presented for payment together with its relative Bond), Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Bonds in definitive form only) a cheque payable in that currency drawn on, a bank in (i) the principal financial centre of that currency provided that such currency is not euro, or (ii) the principal financial centre of any Participating Member State if that currency is euro.

(b) Registered Bonds

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond at the specified office of the Registrar and in the manner provided in Condition 9(a) (*Bearer Bonds*).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) above and annotation of such payment on the Register and the relevant Bond Certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named of joint holders) on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in (a) the principal financial centre of the country of the currency concerned, provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in (a) the principal financial centre of the country of that currency provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro.

A record of each payment so made will be endorsed on the schedule to the Global Bond or the Global Bond Certificate by or on behalf of the Principal Paying Agent or the Registrar, as the case may be, which endorsement shall be prima facie evidence that such payment has been made.

(c) Payments in the United States of America

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;

(ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and

(iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(d) *Payments subject to fiscal laws; payments on Global Bonds and Registered Bonds*

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of this Condition 9. No commission or expenses shall be charged to the Bondholders, Couponholders or Receiptholders (if any) in respect of such payments.

The holder of a Global Bond or Global Bond Certificate shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond or Global Bond Certificate (as the case may be) and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond or Global Bond Certificate in respect of each amount paid.

(e) *Appointment of the Agents*

The Paying Agents, the Agent Bank, the Transfer Agents and the Registrar (the "**Agents**") appointed by the Issuer (and their respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Final Terms and will be appointed pursuant to a Calculation Agency Agreement. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, **provided that** the Issuer will at all times maintain (i) a Principal Paying Agent (in the case of Bearer Bonds); (ii) a Registrar (in the case of Registered Bonds); (iii) an Agent Bank or Calculation Agent (as specified in the relevant Final Terms) (in the case of Floating Rate Bonds or Indexed Bonds); (iv) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive; and (v) if and for so long as the Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent, Transfer Agent or Registrar in any particular place, a Paying Agent, Transfer Agent and/or Registrar, as applicable, having its specified office in the place required by such listing authority, stock exchange and/or quotation system'. Notice of any such variation, termination or appointment will be given in accordance with Condition 17 (*Notices*).

(f) *Unmatured Coupons and Receipts and Unexchanged Talons*

(i) Subject to the provisions of the relevant Final Terms, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unmatured Coupons attached), unmatured Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.

(ii) Upon the date for redemption of any Bond, any unmatured Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(iv) Where any Bond, which is a Bearer Bond and is a Fixed Rate Bond, is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmatured Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) Non-Business Days

Subject as provided in the relevant Final Terms, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in London and in the relevant place of presentation and in the cities referred to in the definition of Business Days and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

(h) Talons

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

10 Taxation

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or, in respect of Wrapped Bonds, the Financial Guarantors) without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer, the Guarantors, any Paying Agent or the Registrar or, where applicable, the Bond Trustee, the Security Trustee or the Financial Guarantor is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, the Guarantors, such Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor will be obliged to make any

additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

If the Issuer is obliged to make any such deduction or withholding, the amount so deducted or withheld is not guaranteed by the Financial Guarantor.

11 **Events of default**

The Events of Default (as defined in the Master Definitions Agreement) relating to the Bonds are set out in Schedule 6 of the CTA.

Following the notification of an Event of Default in respect of the Issuer, the STID provides for a Standstill Period (as defined in the Master Definitions Agreement) to commence and for restrictions to apply to all Secured Creditors of TWUL. The CTA also contains various Trigger Events that will, if they occur, (among other things) permit the Majority Creditors to commission an Independent Review, require TWUL to discuss its plans for appropriate remedial action and prevent the TWU Financing Group from making further Restricted Payments until the relevant Trigger Events have been remedied.

(a) *Events of Default*

If any Event of Default occurs and is continuing in relation to the Issuer, subject always to the terms of the STID, the Bond Trustee may at any time (in accordance with the provisions of the Bond Trust Deed and the STID), having certified in writing that, in its opinion, the occurrence of such event is materially prejudicial to the interests of the Bondholders and shall upon the Bond Trustee being so directed or requested (i) by an Extraordinary Resolution (as defined in the Bond Trust Deed) of holders of the relevant Sub-Classes of Class A Bonds or, if there are no Class A Bonds outstanding, the Class B Bonds or (ii) in writing by holders of at least one quarter in outstanding nominal amount of the relevant Sub-Class of Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds and subject, in each case, to being indemnified and/or secured to its satisfaction, give notice to the Issuer and the Security Trustee that the Bonds of the relevant Sub-Class are, and they shall immediately become, due and repayable, at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(a), the "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 11(a)) or as specified in the applicable Final Terms.

(b) *Confirmation of no Event of Default*

The Issuer, pursuant to the terms of the CTA, shall provide written confirmation to the Bond Trustee, on an annual basis, that no Event of Default has occurred in relation to the Issuer.

(c) *Enforcement of Security*

If the Bond Trustee gives written notice to the Issuer and the Security Trustee that an Event of Default has occurred under the Bonds of any Sub-Class, a Standstill Period shall commence. The Security Trustee may only enforce the Security acting in accordance with the STID and, subject to certain limitations on enforcement during a Standstill Period, on the instructions of the Majority Creditors.

(d) *Automatic Acceleration*

In the event of the acceleration of the Secured Liabilities (other than a Permitted Share Pledge Acceleration, a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event (as defined in the Master Definitions

Agreement) as set out in the STID), the Bonds of each Series shall automatically become due and repayable at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(d), "**Reference Date**" means the date two Business Days prior to the date of such acceleration) or as specified in the applicable Final Terms plus, in each case, accrued and unpaid interest thereon.

12 Enforcement against Issuer

No Bondholder is entitled to take any action against the Issuer or, in the case of the holders of Wrapped Bonds, against the Financial Guarantor or against any assets of the Issuer or any Financial Guarantor to enforce its rights in respect of the Bonds or to enforce any of the Security or to enforce any Financial Guarantee unless the Bond Trustee or the Security Trustee (as applicable), having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Security Trustee will act (subject to Condition 11(c) (*Enforcement of Security*)) on the instructions of the Majority Creditors pursuant to the STID, and neither the Bond Trustee nor the Security Trustee shall be bound to take any such action unless it is indemnified and/or secured to its satisfaction against all fees, costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing.

Neither the Bond Trustee nor the Bondholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, re-organisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Security Agreement and subject to the STID) or other proceeding under any similar law for so long as any Bonds are Outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

13 Prescription

Claims against the Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date) in respect thereof.

14 Replacement of Bonds, Coupons, Receipts and Talons

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and requirements of the London Stock Exchange (in the case of listed Bonds) (and each other listing authority, stock exchange and or quotation system upon which the relevant Bonds have then been admitted to listing, trading and/or quotation), at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Meetings of Bondholders, Modification, Waiver and Substitution

(a) Decisions of Majority Creditors

The STID contains provisions dealing with the manner in which matters affecting the interests of the Secured Creditors (including the Bond Trustee and the Bondholders) will be dealt with. Bondholders will (subject to various Reserved Matters and Entrenched Rights) be bound by the decisions of the Majority Creditors (and additionally in a Default Situation (as defined in the Master Definitions Agreement) decisions made pursuant to the *Emergency Instruction Procedure* (as set out in Clause 9.13 (*Emergency Instruction Procedure*) of the STID)).

In the circumstances which do not relate to Entrenched Rights or Reserved Matters of the

Bondholders (as set out in the STID), the Bond Trustee shall be entitled to vote as the DIG Representative of holders of each Sub-Class of Wrapped Bonds (following the occurrence of an FG Event of Default in respect of the Financial Guarantor of those Wrapped Bonds which is continuing) and of each Sub-Class of Unwrapped Bonds (other than Class A FG Covered Bonds (unless a Default Situation is subsisting)) on intercreditor issues ("**Intercreditor Issues**") but shall not be entitled to convene a meeting of any one or more Sub-Class of Bondholders to consider the relevant matter unless a Default Situation is subsisting. If a Default Situation has occurred and is subsisting, the Bond Trustee may vote on Intercreditor Issues in its absolute discretion or shall vote in accordance with a direction by those holders of such outstanding Class A Bonds (including Class A FG Covered Bonds) or, if there are no Class A Bonds outstanding, Class B Bonds (i) by means of an Extraordinary Resolution of the relevant Sub-Class of Bonds; or (ii) (in respect of a DIG Proposal to terminate a Standstill) as requested in writing by the holders of at least one quarter of the Principal Amount Outstanding of the relevant Sub-Class of Class A Bonds (including Class A FG Covered Bonds) then outstanding, or if there are no Class A Bonds outstanding, Class B Bonds. In any case, the Bond Trustee shall not be obliged to vote unless it has been indemnified and/or secured to its satisfaction.

Whilst a Default Situation is subsisting, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings. To cater for such circumstances, the STID provides for an *Emergency Instruction Procedure*. The Security Trustee will be required to act upon instructions contained in an emergency notice (an "**Emergency Instruction Notice**"). An Emergency Instruction Notice must be signed by DIG Representatives (provided that, any Secondary Market Guarantor in respect of Class A FG Covered Bonds shall constitute the DIG Representatives for the *Emergency Instruction Procedure* despite a Default Situation subsisting) (the "**EIN Signatories**") representing 662/3 per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or following repayment in full of the Class A Debt, the Class B Debt after, *inter alia*, excluding the proportion of Qualifying Debt in respect of which the Bond Trustee is the DIG Representative and in respect of which the Bond Trustee has not voted. The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take and must certify that, unless such action is taken within the time frame specified in the Emergency Instruction Notice, the interests of the EIN Signatories will be materially prejudiced.

(b) *Meetings of Bondholders*

The Bond Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification of the Bonds, the Receipts, the Coupons or any of the provisions of the Bond Trust Deed, (in the case of Class A Wrapped Bonds and Class B Wrapped Bonds) the Financial Guarantees and any other Finance Document to which the Bond Trustee is a party (subject to the terms of the STID). Any modification may (except in relation to any Entrenched Right or Reserved Matter of the Bond Trustee (as set out in the STID) subject to the terms of the STID including, in the case of any of the Class A Wrapped Bonds or Class B Wrapped Bonds, to Entrenched Rights or Reserved Matters of any Financial Guarantor (as set out in the STID) and subject to the provisions concerning ratification and/or meetings of particular combinations of Sub-Classes of Bonds as set out in Condition 16(b) (*Exercise of rights by Bond Trustee*) and the Bond Trust Deed), be made if sanctioned by a resolution passed at a meeting of such Bondholders duly convened and held in accordance with the Bond Trust Deed by a majority of not less than three-quarters of the votes cast (an "**Extraordinary Resolution**") at such meeting. Such a meeting may be convened by the Bond Trustee or the Issuer, and shall be convened by the Issuer upon the request in writing of the relevant Bondholders holding not less than one-tenth in nominal amount of the relevant Bonds for the time being Outstanding.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. in nominal amount of the relevant Bonds for the time being Outstanding or, at any adjourned meeting, one or more persons being or representing Bondholders, whatever the nominal amount of the relevant Bonds held or represented, provided however, that certain matters as set out in paragraph 5

of the Fourth Schedule to the Bond Trust Deed (the "**Basic Terms Modifications**") in respect of the holders of any particular Sub-Class of Bonds may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class of Bonds at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in nominal amount of the Outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Bond Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(c) *Modification, consent and waiver*

As more fully set out in the Bond Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Sub-Class, concur with the Issuer or any other relevant parties in making (i) any modification of these Conditions, the Bond Trust Deed, any Financial Guarantee or any Finance Document which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of law; and (ii) (except as mentioned in the Bond Trust Deed and subject to the terms of the STID) any other modification and granting any consent under or waiver or authorisation of any breach or proposed breach of these Conditions, the Bond Trust Deed, such Financial Guarantee or any such Finance Document or other document which is, in the opinion of the Bond Trustee, not materially prejudicial to the interests of the Bondholders of that Sub-Class. Any such modification, consent, waiver or authorisation shall be binding on the Bondholders of that Sub-Class, and the holders of all relevant Receipts and Coupons and, if the Bond Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders of that Sub-Class as soon as practicable thereafter.

The Bond Trustee shall be entitled to assume that any such modification, consent, waiver or authorisation is not materially prejudicial to the Bondholders if the Rating Agencies confirm that there will not be any adverse effect thereof on the original issue ratings of the Bonds.

(d) *Substitution of the Issuer*

As more fully set forth in the STID (and subject to the conditions and qualifications therein), the Bond Trustee may also agree with the Issuer, without reference to the Bondholders, to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Bond Trust Deed and the Bonds of all Series and subject to the Wrapped Bonds continuing to be subject to a Financial Guarantee of the relevant Financial Guarantor.

16 **Bond Trustee Projections**

(a) *Trustee considerations*

Subject to the terms of the STID and Condition 16(b) (*Exercise of rights by Bond Trustee*), in connection with the exercise, under these Conditions, the Bond Trust Deed, any Financial Guarantee or any Finance Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Bond Trustee shall have regard to the interests of the holders of the Bonds provided that, if the Bond Trustee considers, in its sole opinion, that there is a conflict of interest between the interests of the holders of the Class A Bonds and the interests of the holders of the Class B Bonds, the Bond Trustee shall give priority to the interests of the holders of the Class A Bonds whose interests shall prevail. Where, in the sole opinion of the Bond Trustee, there is a conflict between holders of two or more Sub-Classes of Bonds of the same Class, it shall consider the interests of the holders of the Sub-Class of Bonds with the shortest dated maturity and,

in either case, will not have regard to the consequences of such exercise for the holders of other Sub-Classes of Bonds or for individual Bondholders, resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Bond Trustee shall not be entitled to require from the Issuer or any Financial Guarantor, nor shall any Bondholders be entitled to claim from the Issuer, any Financial Guarantor or the Bond Trustee, any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Bondholders of any such exercise.

(b) *Exercise of rights by Bond Trustee*

Except as otherwise provided in these Conditions and the Bond Trust Deed, when exercising any rights, powers, trusts, authorities and discretions relating to or contained in these Conditions or the Bond Trust Deed (other than in determining or in respect of any Entrenched Right or Reserved Matter relating to the Bonds or any other Basic Terms Modification), which affects or relates to any Class A Wrapped Bonds and/or Class B Wrapped Bonds, the Bond Trustee shall only act on the instructions of the relevant Financial Guarantor(s) (provided no FG Event of Default has occurred and is continuing) in accordance with the provisions of the Bond Trust Deed and the Bond Trustee shall not be required to have regard to the interests of the Bondholders in relation to the exercise of such rights, powers, trusts, authorities and discretions and shall have no liability to any Bondholders as a consequence of so acting. As a consequence of being required to act only on the instructions of the relevant Financial Guarantor(s) in the circumstances referred to in the previous sentence, the Bond Trustee may not, notwithstanding the provisions of these Conditions, be entitled to act on behalf of the holders of any Sub-Classes of Bonds. Subject as provided in these Conditions and the Bond Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Bond Trust Deed, the Conditions or any Financial Guarantee in accordance with the directions of the relevant Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has (a) (in respect of the matters set out in Condition 11 (*Events of Default*) and Condition 15(a) (*Decisions of the Majority Creditors) only*) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the relevant Sub-Classes of Bonds Outstanding; or (b) been so directed by an Extraordinary Resolution; and (ii) been indemnified and/or furnished with security to its satisfaction.

(c) *Decisions under STID binding on all Bondholders*

Subject to the provisions of the STID and the Entrenched Rights and Reserved Matters of the Bond Trustee and the Bondholders, decisions of the Majority Creditors and (in a Default Situation) decisions made pursuant to the Emergency Instructions Procedures will bind the Bond Trustee and the Bondholders in all circumstances.

17 Notices

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered Bonds as specified above) shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds, notices in respect of those Bonds may be given by delivery of the relevant notice to Euroclear as operator of the Euroclear System or Clearstream, Luxembourg or any other relevant clearing system as specified in

the relevant Final Terms for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders on the day of delivery to such clearing systems.

18 Indemnification of the Bond Trustee and Security Trustee

(a) Indemnification of the Bond Trustee

The Bond Trust Deed contains provisions for indemnification of the Bond Trustee, and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings against the Issuer, any Financial Guarantor and or any other person unless indemnified and/or secured to its satisfaction. The Bond Trustee or any of its affiliates (as defined in Condition (Indexation)) are entitled to enter into business transactions with the Issuer, any Financial Guarantor, the other Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom.

(b) Indemnification of the Security Trustee

Subject to the Entrenched Rights and Reserved Matters of the Security Trustee, the Security Trustee will only be required to take any action under or in relation to, or to enforce or protect the Security, or any other security interest created by a Finance Document, or a document referred to therein, if instructed to act by the Majority Creditors or Secured Creditors (or their representatives) (as appropriate) and if indemnified to its satisfaction.

(c) Directions, Duties and Liabilities

Neither the Security Trustee nor the Bond Trustee, in the absence of its own wilful misconduct, gross negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the Majority Creditors or Secured Creditors (or their representatives) (as appropriate), shall in any way be responsible for any loss, costs, damages or expenses or other liability, which may result from the exercise or non-exercise of any consent, waiver, power, trust, authority or discretion vested in the Security Trustee or the Bond Trustee pursuant to the STID, any Finance Document or any Ancillary Document.

19 European Economic and Monetary Union

(a) Notice of redenomination

The Issuer may, without the consent of the Bondholders, and on giving at least 30 days' prior notice to the Bondholders, the Financial Guarantors, the Bond Trustee and the Principal Paying Agent, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Bonds falling on or after the date on which the United Kingdom becomes a Participating Member State.

(b) Redenomination

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(i) the Bonds of each Sub-Class denominated in sterling (the "**Sterling Bonds**") shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Bond equal to the principal amount of that Bond in sterling, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty establishing the European Union, as amended, (including compliance with rules relating to rounding in accordance with European Community regulations), provided, however, that, if the Issuer determines, with the agreement of the Bond Trustee, that the then current market practice in respect of the redenomination into

euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders, the London Stock Exchange and any stock exchange (if any) on which the Bonds are then listed and the Principal Paying Agent of such deemed amendments;

(ii) if Bonds have been issued in definitive form:

(A) all Bonds denominated in sterling will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Bondholders and the Bond Trustee that replacement Bonds denominated in euro are available for exchange (provided that such Bonds are available) and no payments will be made in respect thereof;

(B) the payment obligations contained in all Bonds denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Bonds in accordance with this Condition 19) shall remain in full force and effect; and

(C) new Bonds denominated in euro will be issued in exchange for Sterling Bonds in such manner as the Principal Paying Agent or the Registrar, as the case may be, may specify and as shall be notified to the Bondholders in the Euro Exchange Notice;

(iii) all payments in respect of the Sterling Bonds (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and

(iv) a Bond may only be presented for payment on a day which is a business day in the place of presentation.

(c) Interest

Following redenomination of the Bonds pursuant to this Condition 19:

(i) where Sterling Bonds have been issued in definitive form, the amount of interest due in respect of the Sterling Bonds will be calculated by reference to the aggregate principal amount of the Sterling Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01; and

(ii) the amount of interest payable in respect of each Sub-Class of Sterling Bonds for any Interest Period shall be calculated by applying the Interest Rate applicable to the Sub-Class of Bonds denominated in euro ranking *pari passu* to the relevant Sub-Class.

20 Miscellaneous

(a) Governing Law

The Bond Trust Deed, STID, the Security Agreement, the Bonds, the Coupons, the Receipts, the Talons (if any), the relevant Financial Guarantee (if any) and the other Finance Documents are, and all matters arising from or in connection with such documents shall be governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*

The courts of England are to have exclusive jurisdiction to settle any dispute that may arise out of or in connection with the Bonds, the Coupons, the Receipts, the Talons, the relevant Financial Guarantee (if any) and the Finance Documents and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons, the Receipts, the Talons (if any) the relevant Financial Guarantee (if any) and/ or the Finance Document may be brought in such courts. The Issuer has in each of the Finance Documents irrevocably submitted to the jurisdiction of such courts.

(c) *Third Party Rights*

No person shall have any right to enforce any term or condition of the Bonds or the Bond Trust Deed under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any rights or remedy which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

FORMS OF THE BONDS

Form and Exchange - Bearer Bonds

Each Sub-Class of Bonds initially issued in bearer form will be issued either as a temporary global bond (the "**Temporary Global Bond**"), without Coupons or Talons attached, or a permanent global bond (the "**Permanent Global Bond**"), without interest Coupons or Talons attached, in each case as specified in the relevant Final Terms. Each Temporary Global Bond or, as the case may be, Permanent Global Bond (each a "**Global Bond**") will be delivered on or prior to the issue date of the relevant Sub-Class of the Bonds to a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

The relevant Final Terms will also specify whether United States Treasury Regulation §1.163-(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Bonds.

Temporary Global Bond exchangeable for Permanent Global Bond

If the relevant Final Terms specifies the form of Bonds as being represented by "Temporary Global Bond exchangeable for a Permanent Global Bond", then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Coupons or Talons attached, not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the specified office of the Paying Agent; and

- receipt by the Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Sub-Class of Bonds with the Sub-Class of Bonds represented by the first Temporary Global Bond.

The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form ("**Definitive Bonds**"):

- on the expiry of such period of notice as may be specified in the relevant Final Terms;

- at any time, if so specified in the relevant Final Terms;

- if the relevant Final Terms specifies "in the limited circumstances described in the

Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; or

- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Temporary Global Bond exchangeable for Definitive Bonds

If the relevant Final Terms specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bonds" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds.

If the relevant Final Terms specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bonds" and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the issue of such Bonds.

Permanent Global Bond exchangeable for Definitive Bonds

If the relevant Final Terms specifies the form of Bonds as being "Permanent Global Bond exchangeable for Definitive Bonds", then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Definitive Bonds:

- on the expiry of such period of notice as may be specified in the relevant Final Terms;
- at any time, if so specified in the relevant Final Terms;
- if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; or
- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

In the event that a Global Bond is exchanged for Definitive Bonds, such Definitive Bonds shall be issued in Specified Denominations(s) only. A Bondholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Bond in respect of such holding and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more Specified Denominations.

Conditions applicable to the Bonds

The Conditions applicable to any Definitive Bond will be endorsed on that Bond and will consist of the Conditions set out under "*Terms and Conditions of the Bonds*" above and the provisions of the relevant Final Terms which supplement, amend, vary and/or replace those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bond to the extent described under "*Provisions Relating to the Global Bonds*".

Legend concerning United States persons

Global Bonds and Definitive Bonds having a maturity of more than 365 days and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Bond, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Form and Exchange - Global Bond Certificates

Global Certificates

Registered Bonds held in Euroclear and/or Clearstream, Luxembourg and/or any other clearing system will be represented by a global bond certificate (each a "**Global Bond Certificate**") which will be registered in the name of a nominee for, and deposited with, a depositary for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

Exchange

The Global Bond Certificate will become exchangeable in whole, but not in part, for individual bond certificates (each an "**Individual Bond Certificate**") if (a) Euroclear or Clearstream, Luxembourg and/or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; (c) at any time at the request of the registered Holder if so specified in the Final Terms; or (d) the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Global Bond Certificate.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such will be

issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within seven Business Days of the delivery, by or on behalf of the registered Holder of the Global Bond Certificate to the Registrar or the Transfer Agents (as the case may be) of such information as is required to complete and deliver such Individual Bond Certificates (including the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the specified office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar or the Transfer Agents (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Rights Against Issuer

Under the Bond Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Bond Trust Deed and the STID) acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Bond or Global Bond Certificate became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system (as the case may be).

Provisions Relating To The Bonds While In Global Form

Clearing System Accountholders

References in the Conditions of the Bonds to "**Bondholder**" are references to the bearer of the relevant Global Bond or the person shown in the records of the relevant clearing system as the holder of the Global Bond Certificate.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond or a Global Bond Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or, in the case of Wrapped Bonds, the relevant Financial Guarantor, to such Accountholder and in relation to all other rights arising under the Global Bond or Global Bond Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Bond or Global Bond Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond or Global Bond Certificate, Accountholders shall have no claim directly against the Issuer or, in the case of Wrapped Bonds, the relevant Financial Guarantor in respect of payments due under the Bonds and such obligations of the Issuer and, in the case of Wrapped Bonds, the relevant Financial Guarantor will be discharged by payment to the bearer of the Global Bond or the registered holder of the Global Bond Certificate, as the case may be.

Amendment to Conditions

Global Bonds will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Prospectus. The following is a summary of certain of those provisions:

- *Meeting*: The holder of a Global Bond or Global Bond Certificate shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of a Global Bond or Global Bond Certificate shall be treated as having one vote in respect of each minimum denomination of Bonds for which such Global Bond or Global Bond Certificate may be exchanged.

- *Cancellation*: Cancellation of any Bond represented by a Global Bond or Global Bond

Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Bond or Global Bond Certificate.

- *Notices*: So long as any Bonds are represented by a Global Bond or Global Bond Certificate and such Global Bond or Global Bond Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant Clearing System, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to the Euroclear, Clearstream, Luxembourg or any other relevant Clearing System for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions.

PRO FORMA FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Bonds issued under the Programme.

Final Terms dated [●]

THAMES WATER UTILITIES CAYMAN FINANCE LIMITED

Issue of [Sub-Class [-[●] (delete as appropriate)] [Aggregate Nominal Amount of Sub-Class]

[Title of Bonds]

[(if Class A Wrapped Bonds or Class B Wrapped Bonds issued including the following:):

unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest

by

[Name of Financial Guarantor]

under the £10,000,000,000 Guaranteed Bond Programme

PART A
CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Prospectus dated [●] 2011 [and the supplemental Prospectus dated [●] which [together] constitute[s] (i) a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and (ii) listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules of the Financial Services Authority (the "**Listing Rules**"). This document constitutes the Final Terms of the Bonds described herein for the purposes of [Article 5.4 of the Prospectus Directive] [Listing Rule 4.2.3 of the Listing Rules] and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the Guarantors and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [●].]

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [●]. This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") [and Listing Rule 4.2.3 of the Listing Rules of the Financial Services Authority (the "**Listing Rules**")] and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive and (ii) listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [●]] and are attached hereto. Full information on the Issuer, the Guarantors and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectuses dated [●] and [●]. [The Prospectuses [and the supplemental Prospectuses] are available for viewing at [●].]

[*Repayment* of the principal and payment of any interest or premium in connection with the Bonds has not been guaranteed by any Financial Guarantor or by any other financial institution.]

[Note: include above paragraph if no Wrapped Bonds are being described in the Final Terms.]

[When completing Final Terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute (i) (in the case of an application to list the Bonds on the London Stock Exchange's Regulated Market) "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive or (ii) (in the case of an application to list the Bonds on the London Stock Exchange's Professional Securities Market) "a significant change" and consequently trigger the need for a supplement to the Prospectus under section 81 of the FSMA.]

[Include whichever of the following apply or specify as "Not Applicable"(N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

1.	(i)	Issuer:	Thames Water Utilities Cayman Finance Limited
	(ii)	Guarantors:	Thames Water Utilities Holdings Limited, Thames Water Utilities Limited, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited
	(iii)	Financial Guarantors:	[Insert name of Financial Guarantor] [delete if not Wrapped Bonds]
2.	(i)	Series Number:	[●]
	(ii)	Sub-Class Number:	[●]
	(If fungible with an existing Sub-Class, details of that Sub-Class, including the date on which the Bonds become fungible).		
3.	Relevant Currency or Currencies:		[●]
4.	Aggregate Nominal Amount:		
	(i)	Series:	[●]
	(ii)	Sub-Class:	[●]
	(iii)	Tranche:	[●]
5.	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date]] (in the case of fungible issues only, if applicable)]
	(ii)	Net proceeds: (required only for listed issues)	[●]
6.	(i)	Specified Denominations:	[●]
	(To avoid certain on-going reporting obligations under the Transparency Directive, the minimum denomination should be Euro 100,000 or equivalent if Bonds to be listed on		*[€50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Bonds in definitive form will be issued with a denomination above*

	an EU regulated market. To fall within the wholesale debt securities regime, the minimum denomination should be Euro 50,000 or equivalent (or, following the date by which any relevant Member State has implemented the Directive 2010/73/EU, Euro 100,000 or equivalent) if Bonds to be listed on an EU regulated market. In the case of Registered Bonds, this means the minimum integral amount in which transfers can be made). Bonds (including Bonds denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies.)	*[€99,000].]* *[€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Bonds in definitive form will be issued with a denomination above [€199,000].]*
	(ii) Calculation Amount	[●]
7.	(i) Issue Date:	[●]
	(ii) Interest Commencement Date (if different from the Issue Date):	[●]
8.	Maturity Date:	*[specify date or (for Floating Rate Bonds) Interest Payment Date falling in [the relevant month and year]]*
9.	Instalment Date:	[Not applicable/*specify*]
10.	Interest Basis:	[[●] per cent. Fixed Rate] [[specify reference] +/-[●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [specify other]
11.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Partly Paid] [Instalment] [Dual Currency] [specify other]
12.	Change of Interest or Redemption/Payment Basis:	*[Specify details of any provision for convertibility of Bonds into another interest or redemption/payment basis]*

13.	Call Options:		Issuer Call Option [(further particular specified below)]
14.	(i)	Status and Ranking:	*[if Class A Wrapped Bonds or Class A Unwrapped Bonds]* The Class A Wrapped Bonds and Class A Unwrapped Bonds rank *pari passu* among each other in terms of interest and principal payments and rank in priority to the Class B Bonds. *[if Class B Wrapped Bonds or Class B Unwrapped Bonds:]* The Class B Wrapped Bonds and the Class B Unwrapped Bonds rank *pari passu* among each other and are subordinated in terms of interest and principal payments to the Class A Bonds.
	(ii)	Status of the Guarantees:	Senior
	(iii)	Status of the Financial Guarantee:	The Financial Guarantee will rank *pari passu* with all unsecured obligations of the Financial Guarantor.
	(iv)	FG Event of Default	*[Only required if Wrapped Bonds. Specify for Financial Guarantor]*
	(v)	[Date [Board] approval for issuance of Bonds [and Guarantee] obtained:	[●] [and [●], respectively]] *[N.B. Only relevant where Board (or similar) authorisations is required for the particular tranche of Bonds or related Guarantee]*
15.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Rate:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and applicable Business Centre(s) for the definition of "**Business Day**"*]/not adjusted]
	(iii)	Fixed Coupon Amounts(s):	[●] per Calculation Amount
	(iv)	Broken Amounts(s):	[●] per Calculation Amount payable on the

		Interest Payment Date falling [in/on] [●]
(v)	Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/Actual or Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)] [specify other]
(vi)	Determination Date:	[●] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon - only relevant where day count fraction is Actual/Actual (ICMA)*)
(vii)	Other terms relating to the method of calculating interest for Fixed Rate Bonds:	[Not Applicable/give details]
(viii)	Reference Gilt:	[●]

17.	Floating Rate Bond Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Specified Period(s)/Specified Interest Payment Dates:	[●]
(ii)	First Interest Payment Date:	[●]
(iii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
(iv)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (give details)]
(v)	Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank):	[Not applicable/Calculation Agent]
(vi)	Screen Rate Determination:	
	- Specified Duration:	[●]
	- Relevant Time:	[●]
	- Relevant Rate:	[●] (*Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement*)
	- Interest Determination Date(s):	[●] (*Second Business Day prior to the start of*

		each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
	- Relevant Screen Page:	[●]
		(*In the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(vii)	ISDA Determination:	
	- Floating Rate Option:	[●]
	- Specified Duration:	[●]
	- Reset Date:	[●]
	- [ISDA Definitions]	[2000/2006]
(viii)	Margin(s):	[+/-][●] per cent. per annum
	[Step-Up Fees:]	[●]
	[Step-Up Date:]	[●]
(ix)	Minimum Interest Rate:	[Not Applicable]
(x)	Maximum Interest Rate:	[Not Applicable]
(xi)	Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/Actual or Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)] [specify other]
(xii)	Additional Business Centre(s):	[●]
(xiii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Conditions:	[●]
(xiv)	Relevant Financial Centre:	[●]
(xv)	Representative Amount:	[●]

18. Zero Coupon Bond Provisions: [Applicable/Not Applicable]

(*if not applicable, delete the remaining subparagraphs of this paragraph*)

(i)	Accrual Yield: [●] per cent. per	[●] per cent. per annum

		annum	
	(ii)	Reference Price: [●]	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
	(iv)	Day Count Fraction in relation to Redemption Amounts and late payment:	[Condition 8(e)/specify other] (*Consider applicable day count fraction if not U.S dollar denominated*)
19.		Indexed Bond Provisions:	[Applicable/Not Applicable] [*If not applicable, delete the remaining subparagraphs of this paragraph*]
	(i)	Index/Formula:	[Annex details]
	(ii)	Interest Rate:	[●]
	(iii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[Not applicable/Calculation Agent]
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	Applicable - Condition 7(c) and 7(e) [*Specify "3 month lag"/"8 month lag" as applicable*]
	(v)	Interest Payment Dates:	[●]
	(vi)	First Interest Payment Date:	[●]
	(vii)	Business Day Convention:	[Following Business Day Convention / Modified Following Business Day Convention/ Preceding Business Day Convention/other (give details)]
	(viii)	Business Centres:	[●]
	(ix)	Minimum Indexation Factor:	[Not applicable/specify]
	(x)	Maximum Indexation Factor:	[Not applicable/specify]
	(xi)	Limited Indexation Month(s):	[●]
	(xii)	Reference Gilt:	[●]
	(xiii)	Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/Actual or Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)] [specify other]
20.	Dual Currency Bond Provisions:		[Applicable/Not Applicable] [*If not applicable, delete the remaining*

			subparagraphs of this paragraph]
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[Give details]
	(ii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[Not applicable/Calculation Agent]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Relevant Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

21.	Call Option:		[Applicable in accordance with Condition 8(b)/Not Applicable] [*If not applicable, delete the remaining subparagraphs of this paragraph*]
	(i)	Optional Redemption Date(s):	Any Interest Payment Date [In the case of Floating Rate Bonds, not before [●] and at a premium of [●], if any.]
	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●]
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[Not applicable]
		(b) Maximum Redemption Amount:	[Not applicable]
	(iv)	Notice period (if other than as set out in the Conditions):	[Not applicable]
22.		Final Redemption Amount:	[Par/other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE BONDS

23.	Form of Bonds:		[Bearer/Registered]
	(i)	If issued in Bearer form:	[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.] [Temporary Global Bond exchangeable for

		Definitive Bonds on [●] days' notice].
		[Permanent Global Bond exchangeable for Definitive Bonds on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]
		[*If a Global Bond is specified as being exchangeable for Definitive Bonds at the option of the Bondholder, the Bonds shall be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and multiples thereof.]*
	(ii) If Registered Bonds:	[Global Bond Certificate exchangeable for Individual Bond Certificates]
24.	Relevant Financial Centre(s) or other special provisions relating to payment dates:	[Not applicable/give details]
25.	Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature):	[Yes/No. If yes, give details]
26.	Details relating to Partly Paid Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Bonds and interest due on late payment:	[Not applicable/give details]
27.	Details relating to Instalment Bonds:	[Not applicable/give details]
	(i) Instalment Date:	[●]
	(ii) Instalment Amount:	[●]
28.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition 19/annexed to this Final Terms] apply]
29.	Consolidation provisions:	[Not Applicable/The provisions annexed to this Final Terms apply]
30.	Other terms or special conditions:	[Not Applicable/give details]
		[*When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive*]
31.	TEFRA rules:	[TEFRA C/TEFRA D/Not applicable]

ISSUER/TWUL LOAN TERMS

32.	Interest rate on relevant Term Advance/Index Linked Advances:	[●]
33.	Term of relevant Term Advance/Index Linked Advances:	[●]
34.	Other relevant provisions:	[●]

DISTRIBUTION

35.	(i)	If syndicated, names of Managers:	[Not Applicable/give names]
	(ii)	Stabilising Manager (if any):	[Not Applicable/give name]
36.	If non-syndicated, name of Dealer:		[Not Applicable/give name]
37.	U.S. Selling Restrictions:		[Reg. S Compliance Category; TEFRA C/ TEFRA D/TEFRA not applicable]
38.	Additional selling restrictions:		[Not Applicable/give details]

LISTING AND ADMISSION TO TRADING APPLICATION

This Final Terms comprises the details required for issue and admission to trading on the London Stock Exchange's Regulated Market and admission to the Official List of the UK Listing Authority of the Bonds described herein pursuant to the listing of the Programme for the issuance of up to £10,000,000,000 Guaranteed Bonds financing Thames Water Utilities Limited.

RESPONSIBILITY

The Issuer and each Guarantor accepts responsibility for the information contained in this Final Terms [save for the [Financial Guarantor] Information]*

[(*Relevant third party information*) has been extracted from (*specify source*). [Each of the][The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from the information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

[The Financial Guarantor accepts responsibility for the [Financial Guarantor] Information contained in this Final Terms.]

Signed on behalf of the Issuer:

By:...

Duly authorised

Signed on behalf of Thames Water Utilities Limited:

By:...

Duly authorised

Signed on behalf of Thames Water Utilities Holdings Limited:

By:...

Duly authorised

Signed on behalf of Thames Water Utilities Finance Limited:

By:..

Duly authorised

Signed on behalf of Thames Water Utilities Cayman Finance Holdings Limited:

By:..

Duly authorised

[Signed on behalf of the Financial Guarantor]*:

By:..

Duly authorised

* Delete as applicable

PART B
OTHER INFORMATION

1	**Listing**		
	(i)	Listing:	[London/Luxembourg/other (specify)/None]
	(ii)	Admission to trading:	[Application has been made for the Bonds to be admitted to trading on [●] with effect from [●]. [Not Applicable.] (*Where documenting a fungible issue need to indicate that original Bonds are already admitted to trading.*)
	(iii)	Estimate of total expenses related to admission to trading:	[●]
2	**Ratings**		
	Ratings:		*The Bonds* to be issued have been rated: [Standard & Poor's Credit Market Services Europe Limited (trading as Standard & Poor's Ratings Services), a division of the McGraw Hill Companies Inc.: [●]] [Moody's Investor Service Limited: [●]] (*The above disclosure should reflect the rating allocated to Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*) *[[insert credit rating agency/agencies] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]; or* *[[insert credit rating agency/agencies] is not established in the European Union but [insert name of European Union affiliate] has applied for registration under Regulation (EC) No. 1060/2009 indicating an intention to endorse its ratings, although notification of the corresponding registration decision (including its ability to endorse [insert credit rating agency's ratings) has not yet been provided by the relevant competent authority.]; or* *[[insert credit rating agency/agencies] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]; or*

[[insert credit rating agency/agencies] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009.] or

[[insert credit rating agency/agencies] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 but [is certified in accordance with Regulation (EC) No. 1060/2009 / has applied to be certified in accordance with Regulation (EC) No. 1060/2009 but is not yet certified]]

3 **[Notification**

The UK Listing Authority [has been requested to provide/has provided - *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4 **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/ OFFER]]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["*Subscription and Sale*"], so far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer."

5 **Reasons for the offer, estimated net proceeds and total expenses**

(i) [Reasons for the offer: [●]

(*See ["Use of Proceeds"] wording in Prospectus - if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.*)

(ii) [Estimated net proceeds: [●]

(*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding*)]

(iii) [Estimated total expenses: [●] (Include breakdown of expenses.)

(*Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above).*][(1)]

6 **[Fixed Rate Bonds only - YIELD**

Indication of yield:	[●] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7 **[Floating Rate Bonds Only - HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

8 **[Index-Linked or other variable-linked Bonds only - PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

[*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.*][2]

[*Include a description of any market disruption or settlement disruption that effect the underlying.*]

[*Include adjustment rules with relation to events concerning the underlying.*]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information][3].

9 **[Dual currency Bonds only - PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.][4]

10 **Operational information**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme and the relevant identification number(s):	[*Not Applicable/give name(s) and member(s) [and address(es)*]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying	[●]

Agent(s) (if any):

Notes:

[1] Required for derivative securities

[2] Required for derivative securities

[3] Required for derivative securities

[4] Required for derivative securities

CHAPTER 9
USE OF PROCEEDS

The proceeds from each issue of Bonds under the Programme will be on-lent to TWUL under the terms of further Issuer/TWUL Loan Agreements to be applied by TWUL for its general corporate purposes or used to repay or service TWUL's Financial Indebtedness.

CHAPTER 10
TAX CONSIDERATIONS

The following is a summary of the UK withholding tax treatment in relation to payments of principal and interest in respect of the Bonds as at the date of this Prospectus. These comments do not deal with other UK tax aspects of acquiring, holding or disposing of Bonds. Prospective purchasers who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK should consult their professional advisors. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK. This summary as it applies to UK taxation is based upon UK law and HM Revenue & Customs practice as in effect on the date of this Prospectus and is subject to any change in law or practice that may take effect after such date.

UK Withholding Tax on UK Source Interest

The Bonds issued by the Issuer will constitute "**quoted Eurobonds**" provided they are and continue to be listed on a recognised stock exchange within the meaning of Section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the UK Listing Authority and are admitted to trading on the London Stock Exchange. While the Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of UK income tax.

In addition, even if the Bonds do not constitute quoted Eurobonds, no withholding or deduction for or on account of UK income tax will apply if the relevant interest is paid on Bonds with a maturity of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Bonds part of a borrowing with a total term of a year or more.

Subject to the section "*Payments by a Financial Guarantor under the Financial Guarantees*" below, in cases falling outside the two exemptions described above, interest on the Bonds will generally, unless another exemption is available, be paid under deduction of UK income tax at the basic rate (currently 20 per cent.). If UK withholding tax is imposed, the Issuer will not pay additional amounts in respect of the Bonds.

Payments by a Financial Guarantor under the Financial Guarantees

If a Financial Guarantor makes any payments in respect of interest on the Wrapped Bonds (or other amounts due under the Wrapped Bonds other than the repayment of amounts subscribed for such Bonds), such payments may be subject to UK withholding tax at the basic rate. Such payments by a Financial Guarantor may not be eligible for any of the exemptions described in the section "*UK Withholding Tax on UK Source Interest*" above. If UK withholding tax is imposed, then a Financial Guarantor will not pay any additional amounts under the Financial Guarantees.

Provision of Information by UK Paying and Collecting Agents

Persons in the UK (i) paying interest to or receiving interest on behalf of another person who is an individual, or (ii) paying amounts due on redemption of any Bonds which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual, may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

For the purposes of this section, "**interest**" should be taken, for practical purposes, as including payments made by the Financial Guarantor in respect of interest on Wrapped Bonds.

The provisions referred to above may also apply, in certain circumstances, to payments made on the redemption of any Bonds where the amount payable on redemption is greater than the issue price of the Bonds.

Other Rules relating to United Kingdom Withholding Tax

Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Bonds should not be subject to any UK withholding tax pursuant to the provisions mentioned in the section "*UK Withholding Tax on UK Source Interest*" above, but may be subject to reporting requirements as outlined in the section "*Provision of Information by UK Paying and Collecting Agents*" above.

Where Bonds are issued with a redemption premium, as opposed to being issued at a discount, then any element of such premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of UK income tax, Bondholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in UK tax law. The above statements do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation.

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium replaced the withholding tax system with a regime of exchange of information as from 1 January 2010. A number of third countries and territories including Switzerland have adopted similar measures to the EU Savings Directive.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has announced proposals to amend the EU Savings Directive. If implemented, the proposed amendments would, *inter alia*, extend the scope of the EU Savings Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU-resident individual, and (ii) a wider range of income similar to interest.

CAYMAN ISLANDS TAX CONSIDERATIONS

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bond under the laws of their country of citizenship, residence or domicile.

The following is a discussion on certain Cayman Islands tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular

circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands Laws:

(a) payments of interest and principal on the Bonds will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Bonds, nor will gains derived from the disposal of the Bonds be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;

(b) no stamp duty is payable in respect of the issue of the Bonds. The Bonds themselves, if in bearer form, will be stampable if they are executed in or brought into the Cayman Islands; and

(c) an instrument of transfer in respect of a Bond in registered form is stampable if executed in or brought into the Cayman Islands.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

The Tax Concessions Law
1999 Revision
Undertaking as to Tax Concessions

In accordance with Section 6 of The Tax Concessions Law (1999 Revision) the Governor in Cabinet undertakes with Thames Water Utilities Cayman Finance Limited (the "**Issuer**"):

(a) That no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations; and

(b) In addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

    (i) on or in respect of the shares, debentures or other obligations of the Issuer; or

    (ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the 10th day of July 2007.

CHAPTER 11
DESCRIPTION OF THE HEDGE COUNTERPARTIES

The information contained herein with respect the Hedge Counterparties relates to and has been obtained from each Hedge Counterparty, respectively. Delivery of this Prospectus shall not create any implication that there has been no change in the affairs of a Hedge Counterparty since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

THE ROYAL BANK OF SCOTLAND PLC

The Royal Bank of Scotland plc ("**RBS**") is a wholly owned subsidiary of The Royal Bank of Scotland Group plc ("**RBSG**", together with its subsidiaries consolidated in accordance with International Financial Reporting Standards, the "**RBS Group**").

RBSG is the holding company of a large global banking and financial services group. Headquartered in Edinburgh with registered address 36 St Andrews Square, Edinburgh, EH2 2YB. The RBS Group operates in the United Kingdom, the United States and internationally through its three principal subsidiaries, RBS, National Westminster Bank Plc ("**NatWest**") and The Royal Bank of Scotland N.V. ("**RBS N.V.**").

RBS is a public limited company incorporated in Scotland. Both RBS and NatWest are major United Kingdom clearing banks. RBS N.V. is a bank regulated by the Dutch Central Bank. In the United States, the RBS Group's subsidiary Citizens, is a large commercial banking organisation. Globally, the RBS Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

Her Majesty's Treasury ("**HM Treasury**") currently holds approximately 68 per cent. of the issued ordinary share capital of RBSG. On 22 December 2009, RBSG issued £25.5 billion of B Shares to HM Treasury. The issue of the £25.5 billion of B Shares to HM Treasury on 22 December 2009 increased HM Treasury's economic interest in RBSG to approximately 84 per cent. but this was reduced to approximately 83 per cent. following the completion of a conversion of a series of preference shares into ordinary shares on 31 March 2010.

The RBS Group had total assets of £1,453.6 billion and owners' equity of £75.1 billion as at 31 December 2010. As at 31 December 2010, the RBS Group's capital ratios were 14.0 per cent., a Core Tier 1 capital ratio of 10.7 per cent. and a Tier 1 capital ratio of 12.9 per cent.

The RBS Group had total assets of £1,307.3 billion and shareholder's equity of £57.0 billion as at 31 December 2010. As at 31 December 2010, the RBS Group's capital ratios were a total capital ratio of 13.6 per cent., a Core Tier 1 capital ratio of 8.4 per cent. and a Tier 1 capital ratio of 10.1 per cent.

HSBC BANK PLC

HSBC Bank plc and its subsidiaries form a UK-based group providing a comprehensive range of banking and related financial services.

HSBC Bank plc (formerly Midland Bank plc) was formed in England in 1836 and subsequently incorporated as a limited company in 1880. In 1923, the company adopted the name Midland Bank Limited which it held until 1982 when it re-registered and changed its name to Midland Bank plc.

During the year ended 31 December, 1992, Midland Bank plc became a wholly owned subsidiary undertaking of HSBC Holdings plc, whose Group Head Office is at 8 Canada Square, London E14 5HQ. HSBC Bank plc adopted its current name, changing from Midland Bank plc, in the year ended 31 December, 1999.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide in 87 countries and territories in six geographic regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America. With assets of US$2,455 billion at 31 December 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

The short term senior unsecured and unguaranteed obligations of HSBC Bank plc are currently rated P-1 by Moody's, A-1+ by Standard & Poor's and F1+ by Fitch and the long term senior, unsecured and unguaranteed obligations of HSBC Bank plc are currently rated Aa2 by Moody's, AA by Standard & Poor's and AA by Fitch.

BNP PARIBAS, LONDON BRANCH

BNP Paribas, a leading provider of banking and financial services in Europe, has four domestic retail banking markets in Europe, namely in Belgium, France, Italy and Luxembourg. The registered address of BNP Paribas S.A. is 16 boulevard des Italiens, 75009 Paris, France.

It is present in over 80 countries and has more than 200,000 employees, including 160,000 in Europe.

BNP Paribas holds key positions in its three activities:

(a) Retail Banking, which includes the following operating entities:

(i) French Retail Banking (FRB);

(ii) BNL banca commerciale (BNL bc), Italian retail banking;

(iii) BeLux Retail Banking;

(iv) Europe-Mediterranean;

(v) BancWest;

(vi) Personal Finance;

(vii) Equipment Solutions;

(b) Investment Solutions; and

(c) Corporate and Investment Banking ("**CIB**").

The acquisition of Fortis Bank and BGL has strengthened the Retail Banking businesses in Belgium and Luxembourg, as well as Investment Solutions and Corporate and Investment Banking.

BNP Paribas is the parent company of the BNP Paribas Group. At 31 December 2010, the BNP Paribas Group had consolidated assets of Euro 1,998.2 billion (compared to Euro 2,057.7 billion at 31 December 2009), consolidated loans and receivables due from customers of Euro 684.7 billion (compared to Euro 678.8 billion at 31 December 2009), consolidated items due to customers of Euro 580.9 billion (compared to Euro 604.9 billion at 31 December 2009) and shareholders' equity (Group share) of Euro 74.6 billion (compared to Euro 69.5 billion at 31 December 2009). Pre-tax net income at 31 December 2010 was Euro 13.0 billion (compared to Euro 9.0 billion at 31 December 2009). Net income, BNP Paribas Group share, at 31 December 2010 was Euro 7.8 billion (compared to Euro 5.8 billion at 31 December 2009).

LLOYDS TSB BANK PLC

Lloyds TSB Bank plc (the "**Lloyds**") and its subsidiary undertakings ("**Lloyds TSB Bank Group**") is a leading UK-based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

The history of Lloyds TSB Bank Group can be traced back to the 18th century when the banking partnership of Taylors and Lloyds was established in Birmingham, England. Lloyds Bank Plc was incorporated in 1865 and during the late 19th and early 20th centuries entered into a number of acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1995,

Lloyds TSB Bank Group continued to expand with the acquisition of Cheltenham and Gloucester Building Society ("**C&G**").

TSB Group plc became operational in 1986 when, following Government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was renamed Lloyds TSB Group plc and with Lloyds Bank Plc, the principal subsidiary. In 1999, Lloyds Bank Plc changed its name to Lloyds TSB Bank plc and the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in Lloyds, and in 2000, Lloyds acquired Scottish Widows. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned Lloyds TSB Bank Group as one of the leading providers of long-term savings and protection products in the UK.

On 18 September 2008, with the support of the UK Government, the boards of Lloyds TSB Group plc and HBOS plc announced that they had reached agreement on the terms of a recommended acquisition by Lloyds TSB Group plc of HBOS plc. The shareholders of Lloyds TSB Group plc approved the acquisition at the company's general meeting on 19 November 2008 and the acquisition was completed on 16 January 2009. Following the acquisition, Lloyds TSB Group plc changed its name to Lloyds Banking Group plc ("**Lloyds Banking Group**") and subsequent to a change to Lloyds Banking Group's corporate structure on 1 January 2010 now operates its business through Lloyds TSB Bank Group.

The Lloyds TSB Bank Group now operate through a number of significant brands including Lloyds TSB, Halifax, Bank of Scotland, Scottish Widows, Clerical Medical and C&G.

Lloyd's registered office is at 25 Gresham Street, London EC2V 7HN. Lloyds is a wholly owned direct subsidiary of Lloyds Banking Group.

The short term senior unsecured and unguaranteed obligations of Lloyds is currently rated P-1 by Moody's, A-1 by Standard & Poor's and F1+ by Fitch and the long-term senior, unsecured and unguaranteed obligations of Lloyds is currently rated Aa3 by Moody's, A+ by Standard & Poor's and AA- by Fitch.

Pursuant to two placing and open offers which were completed by the Lloyds Banking Group in January and June 2009 and the Rights Issue completed in December 2009, the UK Government acquired 43.4 per cent. of the Lloyds Banking Group's issued ordinary share capital. Following further issues of ordinary shares, the UK Government's holding has been reduced to approximately 40.6 per cent.

NATIONAL AUSTRALIA BANK LIMITED

History and development of NAB

The legal name of NAB is National Australia Bank Limited and it trades commercially as "National Australia Bank" and, particularly within Australia, as "**NAB**" or "**National Australia Bank**". NAB is registered in the State of Victoria with Australian Business Number (**ABN**) 12 004 044 937. NAB was incorporated on 23 June 1893.

NAB is a public limited company incorporated in the Commonwealth of Australia and it operates under Australian legislation including the Corporations Act 2001 of Australia (the "**Corporations Act**"). Its registered office is Level 4 (UB4440), 800 Bourke Street, Docklands, Victoria 3008, Australia (telephone number +61 3 8634 2345).

Business Overview

As at 30 September 2010, NAB had total assets of Australian Dollars 685.95 billion, risk weighted assets of Australian Dollars 344.7 billion, a Tier 1 capital ratio of 8.91%, Australian Dollars 116.1 billion in funds under management, and reported an underlying profit of Australian Dollars 8.8 billion.

After 150 years, NAB Group's operations in Asia, Australia, New Zealand, the United Kingdom and the United States serve over 10 million banking and wealth management clients, providing access to international financial markets and an extensive range of specialised funding, liquidity, investment, asset services and risk management capabilities.

Source: NAB Annual Financial Report 2010

Principal activities

NAB is an international financial services organisation, providing a comprehensive and integrated range of financial products and services. One of Australia's biggest banks[11] and largest listed institutions[12], NAB manages relationships with retail, corporate and institutional clients, and financial organisations internationally.

The principal activities of NAB are banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services.

Around the globe, NAB Group's reach includes:

(a) Australia - NAB, National Australia Bank Group and MLC service personal, business, private and institutional banking and wealth management clients;

(b) United Kingdom - Clydesdale Bank and Yorkshire Bank offer retail, business and corporate banking services;

(c) New Zealand - Bank of New Zealand (BNZ) provides wealth management, retail and institutional financial services, and business and agribusiness products and services; and

(d) Americas - Great Western Bank delivers banking, wealth management and insurance services to its personal and business customer base.

NAB is listed on the ASX, with short term ratings of A-1+ by Standard & Poor's, P-1 by Moody's and F1+ by Fitch. Long term senior unsecured and unguaranteed obligations are currently rated AA by Standard & Poor's, Aa1 by Moody's and AA by Fitch.

BARCLAYS BANK PLC

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167.

The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC".

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[11] Ranked 22nd globally, industry ranking, The Biggest Public Companies (Forbes 2010)

[12] By market capitalisation (ASX) and total assets (Forbes 2010)

Barclays Bank PLC and its subsidiary undertakings (taken together, the "**Barclays Group**") are major global financial services providers engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Barclays Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-1+ by Standard & Poor's, P-1 by Moody's and F1+ by Fitch Ratings Limited and the long-term obligations of Barclays Bank PLC are rated AA- by Standard & Poor's, Aa3 by Moody's and AA- by Fitch Ratings Limited.

Based on the Barclays Group's audited financial information for the year ended 31 December 2010, the Barclays Group had total assets of £1,490,038 million (2009: £1,379,148 million), total net loans and advances1 of £465,741 million (2009: £461,359 million), total deposits of £423,777 million (2009: £398,901 million), and total shareholders' equity of £62,641 million (2009: £58,699 million) (including non-controlling interests of £3,467 million (2009: £2,774 million)). The profit before tax from continuing operations of the Barclays Group for the year ended 31 December 2010 was £6,079 million (2009: £4,559 million) after impairment charges and other credit provisions of £5,672 million (2009: £8,071 million). The financial information in this paragraph is extracted from the audited consolidated financial statements of Barclays Bank PLC for the year ended 31 December 2010.

DEUTSCHE BANK AG, LONDON BRANCH

Deutsche Bank Aktiengesellschaft ("**Deutsche Bank**") originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. Deutsche Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the "**Deutsche Bank Group**").

"**Deutsche Bank AG London**" is the London branch of Deutsche Bank AG. On 12 January 1973, Deutsche Bank AG filed in the United Kingdom the documents required pursuant to section 407 of the Companies Act 1948 to establish a place of business within Great Britain. On 14 January 1993, Deutsche Bank registered under Schedule 21A to the Companies Act 1985 as having established a branch (Registration No. BR000005) in England and Wales. Deutsche Bank AG London is an authorised person for the purposes of section 19 of the Financial Services and Markets Act 2000. In the United Kingdom, it conducts wholesale banking business and through its Private Wealth Management division, it provides holistic wealth management advice and integrated financial solutions for wealthy individuals, their families and selected institutions.

As of 31 December 2010, Deutsche Bank's issued share capital amounted to Euro 2,379,519,078.40 consisting of 929,499,640 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all the German Stock Exchanges. They are also listed on the New York Stock Exchange.

The consolidated financial statements for the fiscal years starting 1 January 2007 are prepared in compliance with International Financial Reporting Standards (IFRS). As of 31 December 2010, Deutsche Bank Group had total assets of Euro 1,905,630 million, total liabilities of Euro 1,855,238 million and total equity of Euro 50,392 million on the basis of IFRS (audited).

Deutsche Bank's long-term senior debt has been assigned a rating of A+ (outlook stable) by Standard & Poor's, Aa3 (outlook stable) by Moody's Investors Services and AA- (outlook negative) by Fitch

Ratings.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

JPMorgan Chase Bank, National Association (the "**JPMorgan**") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of 31 December 2010, JPMorgan Chase Bank, National Association, had total assets of US$1,631.6 billion, total net loans of US$531.9 billion, total deposits of US$1,020.0 billion, and total stockholder's equity of US$123.4 billion. These figures are extracted from JPMorgan's unaudited Consolidated Reports of Condition and Income (the "**Call Report**") as of 31 December 2010, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended 31 December 2009, of JPMorgan Chase & Co., the 2009 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "**SEC**") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Prospectus is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

The information contained in this section of the Prospectus relates to and has been obtained from JPMorgan. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of JPMorgan since the date hereof, or that the information contained or referred to in this section of the Prospectus is correct as of any time subsequent to its date.

MORGAN STANLEY & CO INTERNATIONAL PLC

Morgan Stanley & Co. International plc ("**MSI plc**") was incorporated in England and Wales with registered number 2068222 on 28 October 1986. MSI plc was incorporated as a company limited by shares under the Companies Act 1985 and operates under the Companies Act 2006. MSI plc was renamed and re-registered as a public limited company on 13 April 2007 under the corporate name of Morgan Stanley & Co. International plc (having previously been named Morgan Stanley & Co. International Limited). MSI plc's registered office is at 25 Cabot Square, Canary Wharf, London E14 4QA and the telephone number of its registered office is +44 20 7425 8000.

The short term senior unsecured and unguaranteed obligations of Morgan Stanley & Co International plc are currently rated P-1 by Moody's and A-1 by Standard & Poor's and the long-term senior, unsecured and unguaranteed obligations of Morgan Stanley & Co International plc are currently rated A2 by Moody's and A+ by Standard & Poor's.

MSI plc's ultimate parent undertaking is Morgan Stanley. Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. Morgan Stanley maintains significant market positions in each of its business segments: - Institutional Securities, Global Wealth Management Group and Asset Management. Morgan Stanley was originally incorporated under the laws of the State of Delaware in 1981, and its predecessor companies date back to 1924. Morgan Stanley conducts its business from its headquarters in and around New York City, its regional offices and branches throughout the United States and its principal offices in London, Tokyo, Hong Kong and other world financial centres.

MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC

Mitsubishi UFJ Securities International plc ("**MUSI**") was incorporated in England and Wales on 11 February 1983 pursuant to the Companies Act 1948 to 1985 as a company with liability limited by

shares, and changed its name from Alnery No. 180 Limited to Mitsubishi Finance International Limited on 16 May 1983 prior to commencing business on 3 October 1983. MUSI was re-registered as a public limited company on 3 August 1989. MUSI's registered office is located at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AJ, and its telephone number is 44 20-7628-5555. MUSI's registration number is 01698498.

On 1 April 1996, MUSI changed its name from Mitsubishi Finance International plc to Tokyo-Mitsubishi International plc, following the merger of its then parent The Mitsubishi Bank, Limited with The Bank of Tokyo, Ltd., the merged entity being named The Bank of Tokyo-Mitsubishi, Ltd. ("**BTM**", which is now known as The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("**BTMU**")). BTM subsequently became a wholly-owned subsidiary of Mitsubishi Tokyo Financial Group, Inc ("**MTFG**", which is now known as Mitsubishi UFJ Financial Group, Inc. ("**MUFG**")) following its merger with The Mitsubishi Trust and Banking Corporation ("**MTBC**") in 2001. As part of a restructuring of the securities subsidiaries of BTM, on 1 July 2004 BTM transferred its 100 per cent shareholding in MUSI to Mitsubishi Securities Holdings Co., Ltd. ("**Mitsubishi Securities**", which is now known as Mitsubishi UFJ Securities Co., Ltd. ("**MUSHD**")), which at that time was a 52 per cent owned subsidiary of BTMU. On 5 July 2004, MUSI changed its name from Tokyo-Mitsubishi International plc to Mitsubishi Securities International plc.

Further to the global merger between MTFG and UFJ Holdings, Inc., MUSI changed its name from "Mitsubishi Securities International plc'' to "Mitsubishi UFJ Securities International plc'' on 3 October 2005.

In furtherance of MUFG's integrated group strategy, MUSHD became a wholly-owned subsidiary of MUFG on 30 September 2007. Transactions between MUSI, BTMU, MUFG and MUSHD are made on an arm's length basis and on normal commercial terms. Under English law, when acting as directors of MUSI, the directors are required to act in accordance with the best interests of MUSI.

MUSI has, at the date hereof, an authorised share capital of £1,000,000,000 consisting of £1,000,000,000 shares each of a nominal value of £1 each, of which £760,611,000 has been issued and fully paid up. MUSI has one subsidiary, a nominee company incorporated in England and Wales called TMI Nominees Limited.

MUSI is a principal part of the securities and capital markets arm of MUFG and provides a wide range of services in the worldwide securities and derivatives businesses to governments, their monetary authorities and central banks, state authorities, supranational organisations and corporations. MUSI is also engaged in market making and dealing in securities in the international securities markets, in swaps and various other derivative instruments and in the management and underwriting of issues of securities and securities investment.

MUSI is regulated by the Financial Services Authority.

MUSI continues to promote and develop its international capital markets business from London, dealing in its main areas of activity; debt and equity securities, derivatives and structured products. MUSI's commitment to strong risk control, systems development and the enhancement of the quality of its personnel continues.

The short-term unsecured obligations of MUSI are rated P-1 by Moody's and the long-term obligations of MUSI are rated Aa3 by Moody's. The short-term and long-term obligations of MUSI are not rated by Standard & Poor's or by Fitch.

CHAPTER 12
SUBSCRIPTION AND SALE

Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of Barclays Bank PLC, BNP PARIBAS, HSBC Bank plc, Deutsche Bank AG, London Branch, Lloyds TSB Bank plc, Macquarie Bank Limited, London Branch, Morgan Stanley & Co. International plc, National Australia Bank Limited, Royal Bank of Canada Europe Limited and The Royal Bank of Scotland plc and any other dealer appointed from time to time (the "**Dealers**") pursuant to the dealership agreement dated 24 August 2007 (as amended and restated on 25 July 2008 and 15 September 2009 and as further amended and restated on 24 June 2011) made between, amongst others, TWUL, the Issuer, the Co-Arrangers and the Dealers (the "**Dealership Agreement**"). The arrangements under which a particular Sub-Class of Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in the Dealership Agreement and the subscription agreements relating to each Sub-Class of Bonds. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Bonds, the price at which such Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series, Class or Sub-Class of Bonds.

In the Dealership Agreement, the Issuer, failing whom TWUL, has each agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and maintenance of the Programme and the issue of Bonds under the Dealership Agreement and each of the Obligors has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States of America

The Bonds and any guarantees in respect thereof have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them in Regulation S.

Bearer Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Bonds comprising the relevant Sub-Class, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Sub-Class of Bonds to or through more than one Dealer, by each of such Dealers as to the Bonds of such Sub-Class purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them in Regulation S.

In addition, until 40 days after the commencement of the offering of Bonds comprising any Sub-Class, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under The Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with

effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

(a) if the final terms in relation to the Bonds specify that an offer of those Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **"offer of Bonds to the public"** in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **"Prospectus Directive"** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **"2010 PD Amending Directive"** means Directive 2010/73/EU.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Cayman Islands

No invitation or solicitation will be made to the public in the Cayman Islands to subscribe for the Bonds.

General

Save for obtaining the approval of the Prospectus by the UK Listing Authority in accordance with Part VI of the FSMA for the Bonds to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Market, no action has been or will be taken in any jurisdiction by the Issuer, the other Obligors or the Dealers that would permit a public offering of Bonds, or possession or distribution of the Prospectus or any other offering material, in any jurisdiction where action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws, regulations and directives in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute the Prospectus or any other offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific country or jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in the official interpretation, after the date of the Dealership Agreement, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Sub-Class of Bonds) or (in any other case) in a supplement to this Prospectus.

CHAPTER 13
GENERAL INFORMATION

Authorisation

The establishment of the Programme, the issue of Bonds thereunder and the giving of the guarantee contemplated by the Security Agreement by the Issuer have been duly authorised by resolutions of the Board of Directors of the Issuer dated 14 August 2007, 23 August 2007, 9 July 2008, 10 September 2009 and, in respect of the update of the Programme, on 10 June 2010 and 9 June 2011. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

The giving of the guarantees contemplated by the Security Agreement by each of TWUL, TWUF and TWH was duly authorised by a resolution of the Board of Directors of each of TWUL, TWUF and TWH, respectively, on 23 August 2007. The giving of the guarantees contemplated by the Security Agreement by TWUCFH was duly authorised by a resolution of the Board of Directors of TWUCFH on 12 October 2007.

Listing of Bonds

It is expected that each Sub-Class of Bonds which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a Global Bond or Bonds initially representing the Bonds of such Sub-Class. In the case of each Sub-Class of Wrapped Bonds, admission to the Official List and to trading on the Market is subject to the issue of the relevant Financial Guarantee by the relevant Financial Guarantor in respect of such Sub-Class. The listing of the Programme in respect of Bonds was granted on the Initial Issue Date and is expected to be updated on 24 June 2011.

However, Bonds may also be issued pursuant to the Programme which will not be listed on the Market or any other Stock Exchange or which will be listed on such Stock Exchange as the Issuer and the relevant Dealer(s) may agree.

Documents Available

For so long as the Programme remains in effect or any Bonds shall be Outstanding, copies of the following documents may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee:

(a) the Memorandum and Articles of Association of each of the Issuer and the other Obligors;

(b) the audited financial statements of TWUL for the year ended 31 March 2010 and the year ended 31 March 2011;

(c) the audited financial statements of TWUF for the year ended 31 March 2010 and the year ended 31 March 2011;

(d) the audited financial statements for the Issuer for the year ended 31 March 2010 and the year ended 31 March 2011;

(e) the audited financial statements for TWH for the year ended 31 March 2010 and the year ended 31 March 2011;

(f) the audited financial statements for TWUCFH for the year ended 31 March 2010 and the year ended 31 March 2011;

(g) a copy of the base prospectus dated 24 August 2007 (together with the supplements thereto dated 15 October 2007 and 3 April 2008, respectively), the base prospectus dated 25 July

2008, the base prospectus dated 15 September 2009, the base prospectus dated 15 June 2010 and the supplementary prospectus dated 24 March 2011 in respect of the Programme;

(h) a copy of this Prospectus;

(i) any Final Terms relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Bonds which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by the relevant Bondholders);

(j) each Investors' Report;

(k) each Financial Guarantee and all related Endorsements relating to each Sub-Class of Wrapped Bonds issued under the Programme;

(l) each G&R Deed; and

(m) the Bond Trust Deed.

Transparency Directive

Under the terms of the CTA, the Issuer is required, if it is impracticable or unduly burdensome to maintain the admission of all listed Bonds to trading on the London Stock Exchange, to use reasonable endeavours to procure and maintain an alternative listing. Directive 2004/109/EC of the European Parliament and the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (the "**Transparency Directive**") which came into force on 20 January 2005. It required member states to take measures necessary to comply with the Transparency Directive by 20 January 2007. The Transparency Directive was implemented in the UK on 20 January 2007 through the introduction by the Financial Services Authority (the "**FSA**") of the new Transparency Rules, which were combined with the FSA's existing Disclosure Rules to form the 'Disclosure and Transparency Rules'. As a result of the Transparency Directive and legislation implementing the Transparency Directive, the Issuer will be required to disclose annual and half-yearly financial reports if it has issued Bonds with a Specified Denomination of less than Euro 100,000 (or equivalent) since 31 December 2010. If the Issuer considers such obligation to be unduly burdensome, the Issuer may decide to delist the Bonds from the Official List and the Market and to seek an alternative listing of the Bonds on an exchange-regulated market or on a stock exchange outside the European Union.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Sub-Class of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Bonds are to clear through an additional or alternative clearing system (including Sicovam) the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

Significant or Material Change

There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of each of the Issuer, TWUL, TWUF, TWH or TWUCFH since 31 March 2011.

Litigation

None of the Issuer, TWUF, TWH, TWUL or TWUCFH is or has been involved in any governmental,

legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the relevant Obligor is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of the Issuer, TWUF, TWH, TWUL or TWUCFH, respectively.

Availability of Financial Statements

The audited annual financial statements of the Issuer and the audited annual financial statements of TWUL, TWUF, TWUCFH and TWH will be prepared as of 31 March in each year. None of the Issuer, TWUCFH or TWH have published nor intend to publish any interim financial statements, but each of TWUL and TWUF has published unaudited interim financial statements as of 30 September 2009 and 30 September 2010 (which were subject to a review by the Auditors in accordance with the International Standard on Review Engagements) and intends to publish unaudited interim financial statements as of 30 September in each year. All future audited annual financial statements (and, in the case of TWUL and TWUF only, any published interim financial statements) of each of the Issuer, TWUL, TWUF, TWUCFH and TWH will be available free of charge in accordance with "*Documents Available*" above.

Auditors

The Auditors of TWUL, TWH, TWUF, TWUCFH and the Issuer are KPMG Audit Plc, of 15 Canada Square, London E14 5GL which is a member firm of the Institute of Chartered Accountants in England and Wales. The accounts of each of TWUL, TWH, TWUF, TWUCFH and the Issuer have been prepared in accordance with generally accepted accounting standards in the United Kingdom on a non-consolidated basis, in each case for the years ended 31 March 2009, 31 March 2010 and 31 March 2011 (including comparative information), and in each case KPMG Audit Plc has given unmodified reports which contained no statement under section 498(2) or (3) of the Companies Act 2006. The audited accounts of each of TWUL, TWH and TWUF for the year ending 31 March 2011 have not yet been delivered to the Registrar of Companies. The accounts of each of TWUL, TWH and TWUF for the years ending 31 March 2009 and 31 March 2010 have been delivered to the Registrar of Companies.

KPMG Audit Plc has given, and not withdrawn, its written consent to the inclusion of its auditor's reports incorporated by reference in this Prospectus, in respect of the Issuer and TWUCFH, in the form and context in which they are included. For the purposes of Prospectus Rule 5.5.4R (2)(f), KPMG Audit Plc has authorised the contents of its auditor's reports referred to above as part of this Prospectus, has stated that it is responsible for those reports and has declared that it has taken all reasonable care to ensure that the information contained in those reports is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect their import.

Bond Trustee's reliance on reports and legal opinions

Certain of the reports of accountants and other experts to be provided in connection with the Programme and/or the issue of Bonds thereunder may be provided on terms whereby they contain a limit on the liability of such accountants or other experts. The Bond Trustee will not necessarily be an addressee to such reports.

Under the terms of the Programme, the Bond Trustee will not necessarily receive a legal opinion in connection with each issue of Bonds.

Legend

Bonds having a maturity of more than one year, Receipts, Talons and Coupons appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Bond, Coupon, Receipt or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon, Receipt or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Information in respect of the Bonds

The issue price and the amount of the relevant Bonds will be determined, before filing of relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Bonds.

Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

Dealer addresses

The address of Macquarie Bank Limited, London Branch, in its capacity as a Dealer, is Ropemaker Place, 28 Ropemaker Street, London EC2Y 9HD, United Kingdom.

GLOSSARY OF DEFINED TERMS

The following terms are used throughout this Prospectus:

"**Acceleration of Liabilities**" or "**Acceleration**" means an acceleration of any Secured Liabilities or termination of a commitment (or equivalent action) including:

(a) the delivery of a termination notice from a Finance Lessor or TWUL terminating the leasing of Equipment under a Finance Lease;

(b) the delivery of a notice by TWUL or a Finance Lessor requesting the prepayment of any Rentals under a Finance Lease;

(c) the early termination of any hedging obligations (whether by reason of an event of default, termination event or other right of early termination) under a Hedging Agreement; or

(d) the taking of any other steps to recover any payment due in respect of any Secured Liabilities, which have matured for repayment and are overdue, by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents and in accordance with the STID.

"**acceleration**" and "**accelerate**" will be construed accordingly.

"**Accession Memorandum**" means (a) with respect to the STID, each memorandum to be entered into pursuant to Clause 2 (Accession) or Clause 19 (Benefit of Deed) (as applicable) of the STID; (b), with respect to the Bond Trust Deed, a memorandum in substantially the form set out in Schedule 5 or Schedule 6 to the Bond Trust Deed pursuant to which a Financial Guarantor or, as the case may be, a Guarantor accedes to the Bond Trust Deed; and (c) with respect to the Agency Agreement, a memorandum in substantially the form set out in Schedule 3 to the Agency Agreement pursuant to which a Guarantor accedes to the Agency Agreement.

"**Account Bank**" means National Westminster Bank plc or any successor account bank appointed pursuant to the Account Bank Agreement.

"**Account Bank Agreement**" means the account bank agreement dated the Initial Issue Date between, among others, the Obligors, the Standstill Cash Manager, the Account Bank and the Security Trustee.

"**Additional Secured Creditor**" means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the accession provisions of the STID.

"**Adjusted Lease Reserve Amount**" means, in respect of any Finance Lease and from the commencement of a Standstill in any Test Period commencing on 1 April in any year, the relevant portion of the Annual Finance Charge for such Test Period relating to such Finance Lease as calculated pursuant to Paragraph 6.12 of Schedule 11 (Cash Management) of the CTA or, where the Lease Calculation Cashflow applies, as calculated pursuant to the Lease Calculation Cashflow.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where "**Affiliate**" has the meaning given to it in that Hedging Agreement).

"**Agency Agreement**" means the agreement dated the Initial Issue Date between the Issuer, TWUL and the Agents referred to therein as amended and restated on 25 July 2008 under which, among other things, the Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme.

"**Agent**" means the Agent Bank, the Principal Paying Agent, the Registrar, the Transfer Agent and any Paying Agent or any other agent appointed by the Issuer pursuant to the Agency Agreement.

"**Agent Bank**" means Deutsche Bank AG, London Branch (or any successor thereto) in its capacity as agent bank under the Agency Agreement in respect of the Bonds.

"**AMP**" means an asset management plan submitted by TWUL to the economic regulator in respect of a five-year period.

"**AMP Period**" means a five year period in relation to which an asset management plan is submitted by TWUL to the economic regulator and in this respect "**AMP2 Period**" means the AMP Period commencing on 1 April 1995; "**AMP3 Period**" means the AMP Period commencing on 1 April 2000; "**AMP4 Period**" means the AMP Period commencing on 1 April 2005; and "**AMP5 Period**" means the AMP Period commencing on 1 April 2010.

"**AMP2**" means the asset management plan prepared for the AMP2 Period.

"**AMP3**" means the asset management plan prepared for the AMP3 Period.

"**AMP4**" means the asset management plan prepared for the AMP4 Period.

"**AMP5**" means the asset management plan prepared for the AMP5 Period.

"**Ancillary Documents**" means the valuations, reports, legal opinions, tax opinions, accountants' reports and the like addressed to or given for the benefit of the Security Trustee, any Obligor or any Secured Creditor in respect of the Security Assets.

"**Annual Finance Charge**" means, in respect of each 12 month period commencing 1 April in any year, the aggregate of all interest (or amounts in the nature of interest (including, but not limited to, lease rentals and hedge payments) due or to become due (after taking account of the impact on interest rates of any Hedging Agreements then in place) during that 12 month period on the Class A Debt and the Class B Debt (including, for the avoidance of doubt, all interest due on the Class B Debt but not yet payable as a result of the restrictions imposed on the payment of that indebtedness contained in the Finance Documents), all Financial Guarantee Fees payable to any Financial Guarantor within that 12 month period, all fees and commissions payable to each Finance Party within that 12 month period and the Lease Reserve Amounts or, during a Standstill Period, the Adjusted Lease Reserve Amounts falling due in that 12 month period, excluding all indexation of principal, all costs incurred in raising such debt, amortisation of the costs of issue of such debt in that Test Period and all other costs incurred in connection with the raising of such debt less all interest received or, in respect of forward-looking ratios, receivable by any member of the TWU Financing Group from a third party during such period (except any interest received or receivable under the Intra-Group Loans or any loan or other forms of Financial Indebtedness to Associates).

"**Applicable Accounting Principles**" means accounting principles, standards and practices generally accepted in the United Kingdom as applied from time to time and making such adjustments (if any) as the Auditors may consider appropriate arising out of changes to applicable accounting principles or otherwise from time to time.

"**Appointed Business**" or "**Regulated Business**" means the appointed business of a "relevant undertaker" (as that term is defined by Section 219 of the WIA).

"**Associate**" means:

(a) any person who has a Controlling interest in any member of the TWU Financing Group; or

(b) any person who is Controlled by a member of the TWU Financing Group,

(c) and in each case, any Affiliate of such person.

"**Auditors**" means KPMG Audit Plc or such other firm of accountants of international repute as may be appointed by TWUL in accordance with the CTA as the Auditors for the TWU Financing Group.

"**Authorised Credit Facility**" means any facility or agreement entered into by the Issuer, TWUF or TWUL for Class A Debt or Class B Debt as permitted by the terms of the CTA or for the issue of Financial Guarantees in relation thereto, the providers of which have acceded to the STID and the CTA, and includes (without limitation) the Credit Facility Agreement, the Liquidity Facilities, the Existing Finance Leases, the Existing Authorised Credit Finance Contracts, the Initial Issuer/TWUL Loan Agreement, the Initial TWUF/TWUL Loan Agreement, the Bond Trust Deed, the Secured TWUF Bond Trust Deeds, the Bonds, the Secured TWUF Bonds, the Existing Hedging Agreements, the Financial Guarantee Fee Letters, the G&R Deeds and any other document entered into in connection with the foregoing facilities or agreements or the transactions contemplated in the foregoing facilities or agreements.

"**Authorised Credit Provider**" means a lender or other provider of credit or financial accommodation under any Authorised Credit Facility and includes each Financial Guarantor for so long as any Financial Guarantee issued by that Financial Guarantor is outstanding, each Bondholder and each Secured TWUF Bondholder.

"**Authorised Investments**" means:

(a) securities issued by the government of the United Kingdom;

(b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, provided that the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short-Term Rating;

(c) any other obligations provided that in each case the relevant investment has the Minimum Short-Term Rating and is either denominated in pounds sterling or (following the date on which the UK becomes a Participating Member State) Euro or has been hedged in accordance with the Hedging Policy; or

(d) any money market funds or equivalent investments which have a rating of at least A- by S&P and A3 by Moody's.

"**Authorised Signatory**" means any person who is duly authorised by any Obligor or any Party and in respect of whom a certificate has been provided signed by a director of that Obligor or such Party setting out the name and signature of that person and confirming such person's authority to act.

"**Authority**" means the Water Services Regulation Authority, which has replaced the DGWS pursuant to the Water Act.

"**Base Cash Flows**" means the annual cash flows of the amount of costs netted off against the amount of receipts and savings in respect of each Relevant Change of Circumstance (as defined in the Licence), Notified Item and relevant disposal of land.

"**Base Currency**" means pounds sterling.

"**Bearer Bonds**" means those of the Bonds which are in bearer form.

"**Bond Trust Deed**" means the bond trust deed dated the Initial Issue Date between, among others, the Issuer and the Bond Trustee as amended and restated on 25 July 2008 and as further amended and restated on 15 September 2009, under which Bonds in issue have been,

and those to be issued will, on issue, be constituted and any bond trust deed supplemental thereto.

"**Bond Trustee**" means Deutsche Trustee Company Limited or any successor trustee appointed pursuant to the Bond Trust Deed for and on behalf of the relevant Bondholders.

"**Bondholders**" means the holders from time to time of the Bonds.

"**Bonds**" means the Class A Bonds and/or the Class B Bonds, as the context may require, and "Bond" shall be construed accordingly.

"**Bridge Facility Agreement**" means the £2,060,000,000 senior bridge facility agreement dated 13 October 2006, as amended from time to time, between, among others, Kemble Water Limited and Barclays Bank PLC, Dresdner Bank AG London Branch, HSBC Bank plc and Royal Bank of Canada Europe Limited as arrangers.

"**Bridge Facility**" means the facility made available to Kemble Water Limited pursuant to the Bridge Facility Agreement.

"**Business**" means Appointed Business and Permitted Non-Appointed Business or otherwise as permitted under the Finance Documents.

"**Business Day**" means (other than in any Hedging Agreement where "Business Day" has the meaning given to it in that Hedging Agreement):

(a) in relation to any sum payable in Euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms;

(b) in relation to any sum payable in a currency other than Euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the currency in which such financial indebtedness is denominated (which in the case of a payment in U.S. dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms; and

(c) in relation to the definition of Lease Calculation Date, a day on which commercial banks and foreign exchange markets settle payments generally in London.

"**Calculation Agency Agreement**" means, in relation to the Bonds of any Tranche, an agreement in or substantially in the form of Schedule 1 of the Agency Agreement.

"**Calculation Agent**" means, in relation to any Tranche of Bonds, the person appointed as calculation agent in relation to such Tranche of Bonds by the Issuer pursuant to the provisions of a Calculation Agency Agreement (or any other agreement) and shall include any successor calculation agent appointed in respect of such Tranche of Bonds.

"**Calculation Date**" means (other than in any Hedging Agreement where "Calculation Date" has the meaning given to it in that Hedging Agreement), 31 March and 30 September in each year starting on 30 September 2007 or any other calculation date agreed as a result of a change in the financial year end date of any Obligor.

"**Capex Contract**" means any agreement pursuant to which TWUL outsources goods and services which are Capital Expenditure.

"**Capital Expenditure**" means Capital Maintenance Expenditure and any expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the TWUL Business Financial Model) relating to the acquisition of equipment, fixed assets, real property, intangible assets and other assets of a capital nature,

or for the replacement or substitutions therefor or additions or improvements thereto, that in any such case have a useful life of more than one year together with costs incurred in connection therewith and provided that such expenditure is incurred in respect of maintenance and non-infrastructure, infrastructure renewals expenditure or quality and supply-demand and other service enhancement expenditure.

"**Capital Maintenance Expenditure**" means expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the TWUL Business Financial Model) on maintaining base service levels in the Appointed Business but excluding any expenditure relating to increases in capacity or enhancement of service levels, quality or security of supply.

"**Cash Expenses**" means the aggregate of all expenses including Capital Expenditure incurred by TWUL in any period (excluding depreciation, IRC and interest on Financial Indebtedness).

"**Cash Manager**" means the Standstill Cash Manager during a Standstill Period, and at all other times TWUL.

"**CAT**" means the Competition Appeal Tribunal of the United Kingdom.

"**CCD**" means expenditure designated under the heading "current cost depreciation" in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to TWUL in Ofwat's most recent Final Determination adjusted as appropriate for any subsequent IDOK and for Out-turn Inflation provided that for the purposes of calculating any financial ratio for any Test Period where there is no Final Determination, the "CCD" shall be TWUL's good faith estimate of such expenditure for such Test Period.

"**CCW**" means the Consumer Council for Water.

"**Class**" means each class of Bonds, the available classes of Bonds being Class A Wrapped Bonds, Class A Unwrapped Bonds, Class B Wrapped Bonds and Class B Unwrapped Bonds.

"**Class A Adjusted ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest during such Test Period.

"**Class A Average Adjusted ICR**" means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

"**Class A Bonds**" means the Class A Wrapped Bonds and the Class A Unwrapped Bonds.

"**Class A Debt**" means any financial accommodation that is for the purposes of the STID to be treated as Class A Debt and includes:

(a) as at the Initial Issue Date all debt outstanding under:

  (i) (the Class A Unwrapped Bonds (including any Class A FG Covered Bonds) issued by the Issuer on the Initial Issue Date;

  (ii) the Secured TWUF Bonds (including any Secured TWUF FG Covered Bonds) issued by TWUF;

  (iii) the Initial Credit Facility;

  (iv) the Existing Authorised Credit Facilities;

(v) the Existing Finance Leases;

(vi) the Existing Hedging Agreements;

(vii) the DSR Liquidity Facilities; and

(viii) the O&M Reserve Facility;

(b) following the Initial Issue Date all debt outstanding under paragraph (a) above and:

(i) any Legacy Bonds which become Secured TWUF Bonds following the Initial Issue Date;

(ii) any Class A Wrapped Bonds or Class A Unwrapped Bonds issued by the Issuer following the Initial issue Date;

(iii) any Financial Guarantee Fee Letter; and

(iv) any G&R Deed in respect of Class A Wrapped Bonds.

"**Class A Debt Instructing Group**" or "**Class A DIG**" means a group of representatives (each a "**Class A DIG Representative**") of Qualifying Class A Debt, comprising:

(a) in respect of each Sub-Class of Class A Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), the Financial Guarantor of such Sub-Class of Class A Wrapped Bonds;

(b) in respect of each Sub-Class of Class A Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds) and each Sub-Class of Class A Unwrapped Bonds (excluding any Class A FG Covered Bonds (unless a Default Situation is subsisting)), the Bond Trustee;

(c) in respect of the Secured TWUF Bonds (excluding any Secured TWUF FG Covered Bonds (unless a Default Situation is subsisting)), the relevant TWUF Bond Trustee;

(d) in respect of each Class A FG Covered Bond and each Secured TWUF FG Covered Bond, the Secondary Market Guarantor in respect of such Class A FG Covered Bond or, as the case may be, Secured TWUF FG Covered Bond (unless a Default Situation is subsisting);

(e) in respect of the Initial Credit Facility, the Initial Credit Facility Agent;

(f) in respect of the Existing Authorised Credit Facilities, the Existing Authorised Credit Provider;

(g) in respect of any Existing Finance Leases, the relevant Finance Lessor; and

(h) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (g) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum as the Class A DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

"**Class A Debt Interest**" means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

(a) all interest and recurring fees or commissions paid, due but unpaid or, in respect of forward- looking ratios, payable, on the Issuer's and/or TWUF's and/or TWUL's obligations under or in connection with all Class A Debt and any Permitted Financial Indebtedness which is unsecured (including all Unsecured TWUF Bond Debt);

(b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Class A Wrapped Bonds; and

(c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or TWUF's and/or TWUL's obligations under and in connection with all Class A Debt,

in each case during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force) (excluding all indexation of principal, amortisation of the costs of issue of any Class A Debt or Unsecured TWUF Bond Debt within such Test Period and all other costs incurred in connection with the raising of such Class A Debt or Unsecured TWUF Bond Debt) less all interest received or in respect of forward-looking ratios receivable by any member of the TWU Financing Group from a third party during such period (excluding any interest received or receivable by TWUL under any Intra-Group Loan or any loan or other forms of Financial Indebtedness to Associates).

"**Class A Debt Service Reserve Account**" means the accounts of each of the Issuer and TWUF titled "**Class A Debt Service Reserve Account**" held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

"**Class A Debt Provider**" means a provider of, or Financial Guarantor of, Class A Debt.

"**Class A FG Covered Bond**" means any Class A Unwrapped Bond in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (provided that such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor).

"**Class A ICR**" means the ratio of Net Cash Flow for each Test Period to Class A Debt Interest for each of the same Test Periods.

"**Class A Net Indebtedness**" means, as at any date, all the Issuer's, TWUF's and TWUL's nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) under and in connection with any Class A Debt on such date (including accretions by indexation to the notional amount under any RPI Linked Hedging Agreement and excluding any un-crystallised mark to market amount relating to any Hedging Agreement) and the nominal amount of any Financial Indebtedness pursuant to paragraphs (e) and (f) of the definition of Permitted Financial Indebtedness which is outstanding (or, in respect of a future date, forecast to be outstanding) on such date together with all indexation accrued on any such liabilities which are indexed less the value of all Authorised Investments and other amounts standing to the credit of any Account (other than an amount equal to the aggregate of any amounts which represent Deferrals of K or Distributions which have been declared but not paid on such date) (where such debt is denominated other than in Sterling, the nominal amount outstanding will be calculated: (i) in respect of debt with associated Currency Hedging Agreements, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreements; or (ii) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate on such date).

"**Class A RAR**" means, on any Calculation Date, the ratio of Class A Net Indebtedness to RCV at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

“**Class A Required Balance**” means, on any Payment Date, the aggregate of the next 12 months’ interest and other finance charges (falling within the definition of Class A Debt Interest) forecast to be due on the Class A Debt and the Unsecured TWUF Bond Debt of the TWU Financing Group.

“**Class A Unwrapped Bonds**” means the Class A Bonds that do not have the benefit of a Financial Guarantee.

“**Class A Wrapped Bonds**” means the Class A Bonds that have the benefit of a Financial Guarantee.

“**Class B Bonds**” means the Class B Wrapped Bonds and the Class B Unwrapped Bonds.

“**Class B Debt**” means any financial accommodation that is, for the purposes of the STID, to be treated as Class B Debt and includes all debt outstanding under: (a) the Class B Wrapped Bonds and the Class B Unwrapped Bonds issued by the Issuer after the Initial Issue Date; and (b) the G&R Deed in respect of the Class B Wrapped Bonds.

“**Class B Debt Instructing Group**” or “**Class B DIG**” means a group of representatives (each a “**Class B DIG Representative**”) of Qualifying Class B Debt, comprising:

(a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), the Financial Guarantor of such Sub-Class of Class B Wrapped Bonds;

(b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default, has occurred and is continuing in respect of the relevant Financial Guarantor) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; and

(c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (b) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in relevant Accession Memorandum, as the Class B DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

“**Class B Debt Service Reserve Account**” means the account of the Issuer titled “**Class B Debt Service Reserve Account**” held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

“**Class B Debt Provider**” means a provider of, or Financial Guarantor of, Class B Debt.

“**Class B Required Balance**” means, on any Payment Date, the aggregate of the next 12 months’ interest and other finance charges (falling within the definition of Senior Debt Interest and relating to Class B Debt) forecast to be due on the Class B Debt of the TWU Financing Group.

“**Class B Unwrapped Bonds**” means the Class B Bonds that do not have the benefit of a Financial Guarantee.

“**Class B Wrapped Bonds**” means the Class B Bonds that have the benefit of a Financial Guarantee from Financial Guarantee.

“**Clearstream, Luxembourg**” means Clearstream Banking, *société anonyme*.

"**Co-Arrangers**" means Barclays Bank PLC and Macquarie Bank Limited, London Branch, the co-lead arrangers of the Programme.

"**Common Agreements**" means the Security Documents, the Bond Trust Deed, the CTA, the Master Definitions Agreement, the Account Bank Agreement, the CP Agreement, the Tax Deed of Covenant, the Calculation Agency Agreement and any Finance Document to which no Secured Creditor other than the Security Trustee and/or the Issuer and/or any Agent is a party.

"**Common Terms Agreement**" or "**CTA**" means the Common Terms Agreement entered into on the Initial Issue Date between, among others, the Obligors, the Existing Finance Lessors and the Security Trustee, and which contains certain representations and covenants of the Obligors and Events of Default.

"**Companies Act**" shall have the same meaning as "Companies Acts" in Section 2 of the Companies Act 2006 but shall only extend to provisions which are in force at the relevant date.

"**Compensation Account**" means the account of TWUL entitled the "Compensation Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.

"**Competition Act**" means the United Kingdom Competition Act 1998.

"**Competition Commission**" or "**CC**" means the United Kingdom Competition Commission.

"**Compliance Certificate**" means a certificate, substantially in the form of Schedule 9 (Form of Compliance Certificate) of the CTA in which each of the Issuer, TWUF and TWUL, periodically, provides certain financial statements to the Security Trustee and each Rating Agency as required by the CTA.

"**Conditions**" means the terms and conditions of the Bonds set out in the Bond Trust Deed as may from time to time be amended, modified, varied or supplemented in the manner permitted under the STID.

"**Construction Output Price Index**" means the index issued by the Department for Business, Enterprise and Regulatory Reform (or any successor thereto), varied from time to time, relating to price levels of new build construction based on a combination of logged values of tender price indices, labour and materials cost indices and on the value of new construction orders in the United Kingdom.

"**Contractor**" means any person (being either a single entity, consortium or joint venture) that is a counterparty to an Outsourcing Agreement or Capex Contract.

"**Control**" of one person by another person means (other than in the Tax Deed of Covenant where it has the meaning defined therein) that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise and whether acting alone or in concert with another or others) has the power to appoint and/or remove the majority of the members of the governing body of that person or otherwise controls or has the power to control the affairs and policies of that person (and references to "Controlled" and "Controlling" shall be construed accordingly).

"**Coupon**" means an interest coupon appertaining to a Definitive Bond (other than a Zero Coupon Bond) and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

"**Couponholders**" means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders.

"**Court**" means the High Court of England and Wales.

"**CP Agreement**" means the conditions precedent agreement, dated 24 August 2007 between, among others, the Bond Trustee, the Security Trustee and the Obligors.

"**Credit Facility**" means the bank facility made available to the Issuer under the Credit Facility Agreement.

"**Credit Facility Agent**" means the agent bank appointed under the Credit Facility Agreement.

"**Credit Facility Agreement**" means the facility agreement entered into between, *inter alia*, the Issuer and the Credit Facility Providers on 18 September 2009 under which the Credit Facility is made available.

"**Credit Facility Provider**" means each of the financial institutions to be assembled by the Thames Water Group each having the Minimum Short-Term Rating or any successor thereto.

"**Currency Hedging Agreement**" means any Hedging Agreement with a Hedge Counterparty in respect of a currency exchange transaction.

"**Date Prior**" means, at any time, the date which is one day before the next Periodic Review Effective Date.

"**Dealers**" means Barclays Bank PLC, BNP PARIBAS, Deutsche Bank AG, London Branch, HSBC Bank plc, Lloyds TSB Bank plc, Macquarie Bank Limited, London Branch, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc, National Australia Bank Limited, Royal Bank of Canada Europe Limited and The Royal Bank of Scotland plc together with any other dealer appointed from time to time by the Issuer and the other Guarantors pursuant to the Dealership Agreement and references to a "**relevant Dealer**" or the "**relevant Dealer(s)**" mean, in relation to any Tranche of Bonds, the Dealer or Dealers with whom the Issuer has agreed the issue of the Bonds of such Tranche and "Dealer" means any one of them.

"**Dealership Agreement**" means the agreement dated 24 August 2007 between the Issuer, the Obligors and the Dealers named therein (or deemed named therein) as amended and restated on 25 July 2008 and 15 September 2009 as further amended and restated on 24 June 2011 concerning the purchase of Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto.

"**Debt Service Payment Account**" means the account of TWUL entitled the "Debt Service Payment Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.

"**Debt Service Reserve Account**" means each of the Class A Debt Service Reserve Accounts and the Class B Debt Service Reserve Account.

"**Default**" means (a) an Event of Default; (b) a Trigger Event; or (c) a Potential Event of Default.

"**Default Situation**" means any period during which there subsists an Event of Default.

"**Deferral of K**" means, in respect of any Financial Year, an amount equal to the difference between the total revenue that is projected by TWUL to be raised during such Financial Year on the basis of the announced charges and the revenue that would have accrued if TWUL had established prices at the full price cap available to it under the Instrument of Appointment.

"**Definitive Bond**" means a Bearer Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed in exchange for either a Temporary Global Bond or part thereof or a Permanent Global Bond (all as indicated in the applicable Final Terms), such Bearer Bond in definitive form being in the form or substantially in the form set out in Schedule 2, Part C to the Bond Trust Deed and having the Conditions endorsed thereon and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.

"**Defra**" means the United Kingdom Department for the Environment, Food and Rural Affairs.

"**Determination Date**" means the date which is seven Business Days prior to each Payment Date.

"**DETR**" means the Department of the Environment, Transport and the Regions which had responsibility for the Environment prior to Defra.

"**DGWS**" means or "**Director General**" means the Director General of Water Services in England and Wales.

"**DIG Directions Request**" means a written notice of each DIG Proposal sent by the Security Trustee to the relevant DIG Representatives pursuant to the STID.

"**DIG Proposal**" means a proposal pursuant to the STID requiring a Majority Creditor decision in relation to the resignation of the Security Trustee or any vote to terminate or extend Standstill in accordance with the STID.

"**DIG Representative**" means each Class A DIG Representative or, as the case may be, Class B DIG Representative.

"**Directors**" means the Board of Directors for the time being of the Issuer or, as the case may be, the relevant Obligor.

"**Discharge Date**" means the date on which all obligations of the Issuer, TWUF and TWUL under the Finance Documents have been irrevocably satisfied in full and no further obligations are capable of arising under the Finance Documents.

"**Distribution**" means, any payments (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any Associate other than:

(a) payments made to such persons pursuant to arrangements entered into for the provision of management and know-how services and which are entered into on bona fide arm's length terms in the ordinary and usual course of trading (including pursuant any agreement made or to be made between TWUL or any other member of the TWU Financing Group and any member of the Macquarie Bank Group in relation to the provision of financial, operational or corporate advisory services) to the extent that the aggregate of all such payments does not exceed 1 per cent. of RCV in any consecutive twelve month period;

(b) any payments made to such persons pursuant to any Outsourcing Agreements and/or Capex Contracts which were entered into and remain in compliance with the Outsourcing Policy save that if any Outsourcing Agreement and/or Capex Contract should cease to comply in all material respects with the Outsourcing Policy, all payments thereunder made by TWUL shall only be made as

Distributions where such non-compliance has remained unremedied for a period in excess of 365 days from the date on which TWUL became aware of such non-compliance;

(c) rental payments made to a member of the Thames Water Group in respect of any Permitted Property Lease granted in favour of TWUL by any member of the Thames Water Group;

(d) payments made to such persons pursuant to arrangements entered into on terms that are not bona fide and arm's length in the ordinary and usual course of trading to the extent that the aggregate of all such payments does not exceed 0.1 per cent. of RCV in any consecutive twelve month period; or

(e) any payments made to such persons in respect of a Permitted Post Closing Event.

"**DSR Liquidity Facilities**" means a debt service reserve liquidity facilities made available under a Liquidity Facility Agreement.

"**DSR Liquidity Facility Agreement**" means any agreement establishing a DSR Liquidity Facility.

"**DSR Liquidity Facility Provider**" means any provider appointed from time to time under a DSR Liquidity Facility Agreement.

"**Dual Currency Bonds**" means a Bond in respect of which the amount payable (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

"**DWI**" means the England and Wales Drinking Water Inspectorate.

"**EA**" or "**Environment Agency**" means the England and Wales Environment Agency.

"**Early Redemption Amount**" has the meaning, in relation to a Sub-Class of Bonds, given to such term in the Conditions relating to such Sub-Class of Bonds.

"**EIB**" means the European Investment Bank.

"**EIB Amendment Agreement**" means the amendment agreement dated the Initial Issue Date between the Existing Authorised Credit Provider and TWUL relating to the Existing Authorised Credit Facilities.

"**EIN Signatories**" means the DIG Representatives representing 66 2/3 per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Senior Debt (or following the repayment in full of the Senior Debt, after excluding the Qualifying Debt in respect of which the Bond Trustee is the Senior DIG Representative and in respect of which the Bond Trustee in its absolute discretion has not voted).

"**Eligible Secondary Market Guarantor**" means:

(a) an Initial Eligible Secondary Market Guarantor; and

(b) any other financial guarantor authorised to transact credit, suretyship and financial loss insurance in the United Kingdom or any other person designated from time to time as an Eligible Secondary Market Guarantor by notice from TWUL to the Security Trustee and the Bond Trustee pursuant to the terms of the STID,

that has, in each case, entered into secondary market financial guarantee arrangements, to the satisfaction of TWUL, with a Bondholder or Secured TWUF Bondholder in respect of

Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds, which secondary market guarantee arrangements continue to be in effect and in respect of which a Notice of Disenfranchisement would not be required to be served if it were a Secondary Market Guarantor.

"**Emergency**" means the disruption of the normal service of the provision of water or wastewater services which is treated as an emergency under TWUL's policies, standards and procedures for emergency planning manual.

"**Emergency Drought Order**" means an emergency drought order, which may be issued by the Secretary of State (in England) or the National Assembly for Wales (in Wales) on application by a Regulated Company, pursuant to section 73(2) of the WRA (as amended by the Environment Act 1995 and the Water Act).

"**Emergency Instruction Notice**" means a notice, setting out the written instructions of the EIN Signatories given to the Security Trustee after (in the case of a STID Proposal) the date specified in the STID Directions Request, being not less than 10 Business Days or (in the case of a DIG Proposal) the date specified in the DIG Directions Request being not less than five Business Days after the date that the STID Directions Request or DIG Directions Request (as applicable) is deemed to be given in accordance with Clause 17.3 (*Effectiveness*) of the CTA.

"**Emergency Instruction Procedure**" means an emergency instruction procedure provided for in the Intercreditor Arrangements, subject to Entrenched Rights and Reserved Matters, to cater for circumstances when a Default Situation is subsisting, and certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings.

"**Enforcement Action**" means any step (other than the exercise of any rights of inspection of any asset or other immaterial actions taken under any Finance Lease) that a Secured Creditor is entitled to take to enforce its rights against an Obligor under a Finance Document following the occurrence of an Event of Default including, the declaration of an Event of Default, the institution of proceedings, the making of a demand for payment under a Guarantee, the making of a demand for cash collateral under a Guarantee or the Acceleration of Liabilities (other than a Permitted Lease Termination, a Permitted Hedge Termination or a Permitted EIB Compulsory Prepayment Event) by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents.

"**Enforcement Order**" means an enforcement order, a final enforcement order or a provisional enforcement order, each as referred to and defined in the WIA.

"**Enterprise Act**" means the Enterprise Act 2002.

"**Entrenched Rights**" means the rights of the Secured Creditors provided by the terms of Clauses 8.3 to 8.9 (inclusive) of the STID and summarised in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*" of this Prospectus.

"**Environmental Claim**" means any claim, proceeding, formal notice or investigation by the relevant duly appointed person pursuant to any Environmental Law;

"**Environmental Law**" means any applicable law (including DETR Circular 02/2000) in force in any jurisdiction in which TWUL or any of its Subsidiaries or any Joint Venture in which it has an interest conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

"**Environmental Permits**" or "**Environmental Approvals**" shall in either case where used mean any permit, licence, consent, approval or other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Business conducted on or from the properties owned or used by TWUL.

"**EPA**" means the United Kingdom Environmental Protection Act 1990.

"**Equipment**" means, in relation to a Finance Lease, any items of equipment, plant and/or machinery, system, asset, software licence, Intellectual Property Right, software and any other item leased under that Finance Lease.

"**Equivalent Amount**" means the amount in question expressed in the terms of the Base Currency, calculated on the basis of the Exchange Rate.

"**EU**" means the European Union.

"**Euro**" or "**€**" means the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

"**Euroclear**" means Euroclear Bank S.A./N.V.

"**Event of Default**" means (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where "Event of Default" has the meaning given to it in that Hedging Agreement) an event specified as such in Schedule 6 of the CTA (Events of Default) as more particularly described in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*" of this Prospectus.

"**Exchange Rate**" means the spot rate at which the Non-Base Currency is converted to the Base Currency as quoted by the Agent Bank as at 11.00 a.m.:

(a) for the purposes of Clause 9.3 (*Notice to Secured Creditors and Secondary Market Guarantors of STID Proposal*) and Clause 9.6 (*DIG Directions Request*) of the STID, respectively, on the date that the STID Proposal or DIG Proposal (as applicable) is dated; and

(b) in any other case, on the date as of which calculation of the Equivalent Amount of the Outstanding Principal Amount is required, and, in each case, as notified by the Agent Bank to the Security Trustee.

"**Excluded Accounts**" means the Issuer's O&M Reserve Account and Debt Service Reserve Accounts to the extent the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant Liquidity Facility, and each Swap Collateral Account.

"**Existing Authorised Credit Facilities**" means the following facilities provided to TWUL by the Existing Authorised Credit Provider pursuant to the Existing Authorised Credit Finance Contracts:

(a) £150,000,000 EIB (2006) 6MLO+0.235 per cent. due 2017;

(b) £60,000,000 EIB index linked 1.230%, due 2019;

(c) £60,000,000 EIB index linked 1.415%, due 2020;

(d) £60,000,000 EIB index linked 1.513%, due 2020;

(e) £60,000,000 EIB index linked 1.380%, due 2020; and

(f) £60,000,000 EIB index linked 1.356%, due 2020.

"**Existing Authorised Credit Finance Contracts**" means:

(a) the finance Contract (FI No. 23.618) between TWUL and the Existing Authorised Credit Provider dated Reading, 4 October 2006 (the "**Finance Contract 23.618**");

(b) the finance Contract (FI No. 25.237) between TWUL and the Existing Authorised Credit Provider dated Reading, 10 November 2009; and

(c) the finance Contract (FI No. 25.237) between TWUL and the Existing Authorised Credit Provider dated Reading, 15 January 2010.

"**Existing Finance Leases**" means the leases between TWUL and each of (i) R.B Leasing (September) Limited, dated 13 December 1994 (as assigned absolutely to Commerzbank AG London Branch on 20 December 2010 (the "**TWUL 1998 Existing Finance Lease**"), (ii) Cheriton Resources 13 Limited (formerly Abbey National March Leasing (1) Limited), dated 23 July 1991 (as assigned absolutely to SG Leasing (March) Limited on 2 October 2006 and as assigned absolutely to RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited) on 31 May 2007 as assigned absolutely to Commerzbank AG London Branch on 20 December 2010 (the "**TWUL 1993 Existing Finance Lease**")) and (iii) Cheriton Resources 13 Limited (formerly Abbey National March Leasing (1) Limited), dated 28 September 1992 (as assigned absolutely to RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited) on 2 October 2006, as assigned absolutely to Commerzbank AG London Branch on 20 December 2010) the "**TWUL 1995 Existing Finance Lease**" and each as amended, supplemented, assigned and novated prior to the Initial Issue Date, and each an "**Existing Finance Lease**".

"**Existing Finance Lessor**" means Commerzbank AG London Branch.

"**Existing Hedge Counterparty**" means each of The Royal Bank of Scotland plc, Bayerische Landesbank, Deutsche Bank AG, London Branch (previously Deutsche Bank AG London) and JPMorgan Chase Bank, N.A.

"**Existing Hedging Agreements**" means:

(a) the £15,000,000 Interest Rate Hedging Agreement as documented by a 1987 Interest Rate and Currency Exchange Agreement and the corresponding schedule both dated 4 August 1992 and supplemented by the confirmation dated 25 February 1998 between TWUL and National Westminster Bank plc (as amended and restated by an amendment agreement dated the Initial Issue Date to comply with the Hedging Policy at the Initial Issue Date);

(b) the £50,000,000 Interest Rate Hedging Agreement as documented by a 1992 ISDA Master Agreement and the corresponding schedule both dated 4 February 1998 and supplemented by the confirmation dated 5 February 1998 (as replaced) between TWUL and National Australia Bank Limited (previously Bayerische Landesbank, London Branch) (as amended and restated by an amendment agreement dated the Initial Issue Date to comply with the Hedging Policy at the Initial Issue Date).

"**Existing Non-Compliances**" means, in connection with TWUL's Instrument of Appointment, the WIA, the WRA or any judgment, law or regulation, any of the following:

(a) the alleged breach of conditions J and/or M of its Instrument of Appointment in connection with the provision to Ofwat of non-financial data on customer services, for which TWUL received a notice under section 203(2) of the WIA on 7 June 2006;

(b) the alleged failure to comply with the guaranteed standards scheme with which Regulated Companies are required to comply in respect of the payment of

compensation to customers for interruptions to service, for which TWUL received a notice under section 22A of the WIA on 19 July 2006;

(c) any breach or alleged breach of the Control of Pollution (Oil Storage) Regulations 2001 concerning sites operated by TWUL relating to the storage of oil, which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date;

(d) any claim made against TWUL under section 209 of the WIA in respect of flood damage to properties resulting from burst water mains, which TWUL has received notice of on, or prior to the Initial Issue Date;

(e) any failure or alleged failure to comply with the terms of any discharge consent or temporary discharge consent issued by the Environment Agency of England and Wales (the "**EA**"), or a failure or alleged failure to ensure that all relevant discharge consents as are required by the EA are in fact held (which for the avoidance of doubt, are not so held due to factors outside of TWUL's control), in each case which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date;

(f) any breach or alleged breach of the Water Quality Regulations in connection with the levels of cryptosporidium and coliforms detected at any of TWUL's water treatment works, reservoirs or customers' taps, which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date;

(g) any breach or alleged breach of section 70 of the WIA for supplying water unfit for human consumption, which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date;

(h) any breach or alleged breach of section 85(1) of the WRA for causing or knowingly permitting any poisonous noxious or polluting matter or any solid waste matter to enter controlled waters, which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date; and

(i) any other failure or breach or alleged failure or breach, existing at the Initial Issue Date, which would not have a material adverse impact upon TWUL's obligations under the Finance Documents.

"**Extraordinary Resolution**" means, in relation to the Bonds, a resolution passed by a meeting of Bondholders, duly convened and held in accordance with the Bond Trust Deed, by a majority of not less than three-quarters of the votes cast at such meeting and, in relation to the Secured TWUF Bonds, a resolution passed by a meeting of Secured TWUF Bondholders, duly convened and held in accordance with the relevant Secured TWUF Bond Trust Deed, by a majority of not less than three quarters of the votes cast at such a meeting.

"**Facility Agent**" means any facility agent under any Authorised Credit Facility.

"**FG Event of Default**" means in relation to any Financial Guarantor, such events as are specified in that Financial Guarantor's G&R Deed or equivalent document and, in relation to Wrapped Bonds, set out in the relevant Final Terms.

"**FG Excepted Amounts**" means any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Step-up Fee Amounts.

"**Final Determination**" means the final price determination made by Ofwat on a five yearly basis.

"**Final Terms**" means the final terms issued in relation to each Sub-Class or Tranche of Bonds as a supplement to the Conditions and giving details of the Sub-Class or Tranche.

"**Finance Documents**" means:

(a) the Security Documents;

(b) the Bond Trust Deed;

(c) the Secured TWUF Bond Trust Deeds;

(d) the Bonds (including the applicable Final Terms);

(e) the Secured TWUF Bonds (including the applicable final terms);

(f) each Financial Guarantee;

(g) each G&R Deed;

(h) each Financial Guarantee Fee Letter;

(i) the Finance Lease Documents;

(j) the Hedging Agreements;

(k) the CTA;

(l) the Issuer/TWUL Loan Agreements;

(m) the TWUF/TWUL Loan Agreements;

(n) the TWUL/TWH Loan Agreement;

(o) the Initial Credit Facility Agreement;

(p) each Liquidity Facility Agreement;

(q) the Agency Agreement;

(r) the Master Definitions Agreement;

(s) the Account Bank Agreement;

(t) the CP Agreement;

(u) the Tax Deed of Covenant;

(v) any Indemnification Deed;

(w) the Existing Authorised Credit Finance Contracts (including the EIB Amendment Agreement);

(x) any other Authorised Credit Facilities; and

(y) each agreement or other instrument between TWUL or the Issuer or TWUF (as applicable) and an Additional Secured Creditor designated as a Finance Document by TWUL or the Issuer or TWUF (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum for such Additional Secured Creditor.

"**Finance Lease Documents**" means each Finance Lease together with any related or ancillary documentation.

"**Finance Leases**" means the Existing Finance Leases and any other finance lease entered into by TWUL in respect of plant, machinery, software, computer systems or equipment (the counterparty to which has acceded to the terms of the STID and the CTA and has agreed to be bound by the terms of Part 2 of Schedule 12 (Provision relating to Finance Leases) to the CTA), permitted to be entered into under the terms of the CTA each a "**Finance Lease**".

"**Finance Lessors**" means the Existing Finance Lessor and any other person entering into a Finance Lease with TWUL, as permitted by the CTA and the STID, who accedes to the STID and the CTA as a Finance Lessor (each a "**Finance Lessor**").

"**Finance Party**" means any person providing financial accommodation pursuant to an Authorised Credit Facility including all arrangers, agents and trustees appointed in connection with any such Authorised Credit Facility.

"**Financial Guarantee Fee**" means any fees payable to the Financial Guarantor under a Financial Guarantee Fee Letter.

"**Financial Guarantee Fee Letter**" means any letter or other agreement between a Financial Guarantor and one or more of the Obligors setting out the terms on which premia are payable in relation to one or more Financial Guarantees issued or to be issued by that Financial Guarantor.

"**Financial Guarantees**" means any financial guarantee issued by a Financial Guarantor in respect of any Wrapped Bond.

"**Financial Guarantor**" means any person which provides a financial guarantee, including the Financial Guarantees, in respect of any of the Wrapped Bonds, and "**Financial Guarantors**" means all of them if there is more than one at any time.

"**Financial Indebtedness**" means (without double-counting) any indebtedness for or in respect of:

(a) moneys borrowed or raised (whether or not for cash);

(b) any documentary or standby letter of credit facility;

(c) any acceptance credit;

(d) any bond, note, debenture, loan stock or other similar instrument;

(e) any finance or capital lease or hire purchase contract which would, in accordance with Applicable Accounting Principles, be treated as such;

(f) any amount raised pursuant to any issue of shares which are capable of redemption;

(g) receivables sold or discounted (other than on a non-recourse basis);

(h) the amount of any liability in respect of any advance or deferred purchase agreement if either one of the primary reasons for entering into such agreement is to raise finance or the relevant payment is advanced or deferred for a period in excess of 90 days;

(i) any termination amount due from any member of the TWU Financing Group in respect of any Treasury Transaction that has terminated;

(j) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing (other than any trade credit or indemnity

granted in the ordinary course of TWUL's trading and upon terms usual for such trade);

(k) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; and

(l) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (k) above (other than any guarantee or indemnity in respect of obligations owed by one member of the TWU Financing Group to another).

"**Financial Statements**" means, at any time, the most recent financial statements of an Obligor, consolidated where applicable, most recently delivered to the Security Trustee.

"**Financial Year**" means the twelve months ending on the 31 March in each year or such other period as may be approved by the Security Trustee.

"**Fixed Rate Bond**" means a Bond on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

"**Flipper Bonds**" means the following bonds issued by TWUF pursuant to the Flipper Bond Trust Deeds:

(a) £200,000,000 5.05 per cent. guaranteed notes due 2020;

(b) £225,000,000 6.59 per cent. guaranteed notes due 2021;

(c) £600,000,000 5.125 per cent. guaranteed notes due 2037;

(d) £300,000,000 guaranteed RPI-linked notes due 2053;

(e) £300,000,000 guaranteed RPI-linked notes due 2055; and

(f) £200,000,000 4.90 per cent. guaranteed notes due 2015.

"**Flipper Bond Trust Deeds**" means the bond trust deeds in relation to the Flipper Bonds, namely:

(a) in respect of the Flipper Bonds referred to in sub-paragraphs (a), (b) and (g) of the definition of Flipper Bonds, the amended and restated trust deed dated 4 October 2002 (as amended by supplemental trust deeds dated 6 October 2003, 7 September 2006, 21 September 2006 and 13 October 2006) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.; and

(b) in respect of the Flipper Bonds referred to in sub-paragraphs (c) to (f) of the definition of Flipper Bonds, the amended and restated trust deed dated 7 September 2006 (as amended by a supplemental trust deed dated 21 September 2006) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.,

in each case, as amended pursuant to a deed of variation dated the Initial Issue Date.

"**Flipper Bond Trustee**" means Deutsche Trustee Company Limited or any successor thereto.

"**Floating Rate Bond**" means a Bond on which interest is calculated at a floating rate payable in arrear in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

"**Form of Transfer**" means the form of transfer endorsed on an Individual Bond Certificate in the form or substantially in the form set out in Schedule 3, Part B to the Bond Trust Deed.

"**FSMA**" means the Financial Services and Markets Act 2000, as amended.

"**G&R Deed**" means a guarantee and reimbursement deed (or agreement of similar name and effect) between, among others, the Issuer and a Financial Guarantor in connection with a particular Tranche of Wrapped Bonds.

"**Global Bond**" means a Temporary Global Bond and/or a Permanent Global Bond, as the context may require.

"**Global Bond Certificate**" means a Registered Bond in global form in the form or substantially in the form set out in Part A of the Third Schedule to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), together with the copy of each applicable Final Terms annexed thereto, comprising some or all of the Registered Bonds of the same Sub-Class sold outside the United States or to non-U.S. persons in reliance on Regulation S under the Securities Act, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealers(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.

"**Good Industry Practice**" means the standards, practices, methods and procedures as practised in the United Kingdom conforming to all applicable laws and the degree of skill, diligence, prudence and foresight which would reasonably be expected from a skilled and experienced person undertaking all or part of the Business as the case may be, under the same or similar circumstances as those applying to TWUL having regard to the regulatory pricing allowances and practices in England and Wales' regulated water and sewerage industry at the relevant time.

"**Government**" means the government of the United Kingdom.

"**Guarantee**" means, in relation to each Guarantor, the guarantee of such Guarantor given by it pursuant to the Security Document to which it is a party.

"**Guarantors**" means TWH, TWUL, TWUF, TWUCFH and the Issuer, each a "**Guarantor**".

"**Habitats Directive**" means European Council Directive 92/43/EEC.

"**Hedge Counterparties**" means (i) the Existing Hedge Counterparties; and (ii) any counterparty to a Hedging Agreement which is or becomes party to the STID in accordance with the STID and "Hedge Counterparty" means any of such parties.

"**Hedging Agreement**" means any Treasury Transaction entered or to be entered into by TWUL, TWUF and/or the Issuer with Hedge Counterparties in accordance with the Hedging Policy (the counterparties to which have acceded to the terms of the STID and the CTA and agreed to be bound by the terms of certain provisions of the CTA, and references to "**Hedging Agreements**" shall be construed accordingly.

"**Hedging Policy**" means the initial hedging policy applicable to TWUL, TWUF and the Issuer set out in Schedule 7 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) of the CTA as such hedging policy may be amended from time to time by agreement between the Security Trustee, the Issuer and, in certain circumstances, the Hedge Counterparties in accordance with the STID.

"**Holding Company**" means a holding company within the meaning of the Companies Act.

"**IDOK**" means an interim determination of K as provided for in Part IV of condition B of the Instrument of Appointment.

"**Income**" means any interest, dividends or other income arising from or in respect of an Authorised Investment.

"**Indemnification Deed**" means, with respect to any Financial Guarantor, the deed so named and entered into on or about the date of the relevant Subscription Agreement between the Obligors, the Financial Guarantor and the Dealers.

"**Independent Review**" means an independent review resulting from a Trigger Event as set out in Paragraph 3, Part 2 (Trigger Event Consequences) of Schedule 5 to the CTA and set out in Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

"**Indexed Bond**" means a bond in respect of which the amount payable in respect of principal and interest is calculated by reference to an index and/or formula as the Issuer and the relevant Dealer(s) may agree (as indicated in the relevant Final Terms).

"**Index Event**" has the meaning given to it in Condition 8(c).

"**Individual Bond Certificate**" means a Registered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed, such Registered Bond in definitive form being in the form or substantially in the form set out in Schedule 3, Part B of the Bond Trust Deed having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon.

"**Initial Credit Facility**" means the bank facility which was made available to the Issuer under the Initial Credit Facility Agreement.

"**Initial Credit Facility Agent**" means the agent bank appointed under the Initial Credit Facility Agreement.

"**Initial Credit Facility Agreement**" means the facility agreement entered into between, *inter alios*, the Issuer and the initial credit facility providers on the Initial Issue Date under which the Initial Credit Facility was made available and which was subsequently cancelled and replaced by the Credit Facility Agreement.

"**Initial Credit Facility Provider**" means each of the financial institutions assembled by the Thames Water Group each having the Minimum Short-Term Rating or any successor thereto.

"**Initial DSR Liquidity Facility Agreement**" means the DSR Liquidity Facility Agreement entered into on the Initial Issue Date between, among others, the Issuer, TWUF and the Initial DSR Liquidity Facility Provider.

"**Initial DSR Liquidity Facility Provider**" means each of the financial institutions assembled by the Thames Water Group each having the Minimum Short Term rating or any successor thereto.

"**Initial Eligible Secondary Market Guarantor**" means each of:

(a) Assured Guaranty (UK) Ltd;

(b) Ambac Assurance UK Limited;

(c) CIFG Europe;

(d) FGIC UK Limited;

(e) Financial Security Assurance (U.K.) Limited;

(f) MBIA UK Insurance Limited;

(g) MBIA Insurance Corporation; and

(h) XL Capital Assurance (U.K.) Limited.

"**Initial Issue Date**" means 30 August 2007.

"**Initial Issuer/TWUL Loan Agreement**" means the loan agreement entered into between the Issuer and TWUL on the Initial Issue Date.

"**Initial O&M Reserve Facility Providers**" means each of the financial institutions assembled by the Thames Water Group each having the Minimum Short Term Rating or any successor thereto.

"**Initial O&M Reserve Facility Agreement**" means the O&M Reserve Facility Agreement entered into on the Initial Issue Date between the Issuer and the Initial O&M Reserve Facility Providers.

"**Initial Subordinated Creditor**" means the Parent.

"**Initial Subordinated Amount**" means the outstanding debt for consideration payable to the Parent by TWH in respect of the purchase by TWH of TWUL.

"**Initial TWUF/TWUL Loan Agreement**" means the loan agreement entered into between TWUF and TWUL on the Initial Issue Date.

"**Insolvency Act**" means the Insolvency Act 1986.

"**Insolvency Event**" means, in respect of any company:

(a) the initiation of or consent to Insolvency Proceedings by such company or any other person or the presentation of a petition or application for the making of an administration order (other than in the case of the Issuer or TWUF, by the Security Trustee) and, in the opinion of the Security Trustee, such proceedings are not being disputed in good faith with a reasonable prospect of success;

(b) the giving of notice of appointment of an administrator or the making of an administration order or an administrator being appointed in relation to such company;

(c) an encumbrancer (excluding, in relation to the Issuer or TWUF, the Security Trustee or any receiver) taking possession of the whole or any part of the undertaking or assets of such company;

(d) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer or TWUF, by the Security Trustee or any receiver) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 30 days;

(e) the making of an arrangement, composition, scheme of arrangement, reorganisation with or conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally;

(f) the passing by such company of an effective resolution or the making of an order by a court of competent jurisdiction for the winding up, liquidation or dissolution of such company (except, in the case of the Issuer or TWUF, a winding up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Security Trustee or by an Extraordinary Resolution);

(g) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company;

(h) save as permitted in the STID, the cessation or suspension of payment of its debts generally or a public announcement by such person of an intention to do so; or

(i) save as provided in the STID, a moratorium is declared in respect of any indebtedness of such person.

"**Insolvency Official**" means, in connection with any Insolvency Proceedings in relation to a company, a liquidator, provisional liquidator, administrator, Special Administrator, administrative receiver, receiver, manager, nominee, supervisor, trustee, conservator, guardian or other similar official in respect of such company or in respect of all or substantially all of the company's assets or in respect of any arrangement or composition with creditors.

"**Insolvency Proceedings**" means, in respect of any company, the winding-up, liquidation, dissolution, administration of such company, or any equivalent or analogous proceedings under the law of the jurisdiction in which such company is incorporated or of any jurisdiction in which such company carries on business, including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

"**Instalment Bonds**" means any Bonds specified as being instalment bonds in the relevant Final Terms.

"**Intellectual Property Right**" means all right, title and interest in:

(a) any trade mark, service mark, trade name, logo, patent, invention, design or similar right;

(b) any designs, copyright, semi-conductor topography, database and know-how or intellectual property right; and

(c) all such similar rights which may subsist in any part of the world, in each case whether registered or not, whether in existence now or in the future, and includes any related application.

"**Intercompany Loan**" means the principal amount of all advances from time to time outstanding under an Issuer/TWUL Loan Agreement or, as the case may be, a TWUF/TWUL Loan Agreement.

"**Intercreditor Arrangements**" means the arrangements between the Secured Creditors of the TWU Financing Group in the STID summarised in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".

"**Interest Commencement Date**" means, in the case of interest-bearing Bonds, the date specified in the applicable Final Terms from (and including) which such Bonds bear interest, which may or may not be the Issue Date.

"**Interest Payment Date**" means any date upon which interest or payments equivalent to interest become payable under the terms of any Authorised Credit Facility.

"**Interest Rate Hedging Agreement**" means a Treasury Transaction to hedge exposure to interest rates, including any RPI Linked Hedging Agreement.

"**Intra-Group Debt Service Distribution**" means (i) any distribution or payment to be made by TWUL for the purpose of providing TWH with the funds required to enable TWH to meet its scheduled payment obligations to TWUL (as agreed from time to time by TWUL and TWH in accordance with the TWUL/TWH Loan Agreement) under the TWUL/TWH Loan Agreement and (ii) any distribution or payment in respect of a Permitted Tax Loss Transaction between members of the TWU Financing Group.

"**Intra-Group Loans**" means the amounts outstanding, from time to time, in respect of the following:

(a) the Initial Subordinated Amount;

(b) the £200,000,000 loan agreement dated the Initial Issue Date between TWH and the Parent;

(c) the £200,000,000 loan agreement dated the Initial Issue Date between TWH and Kemble Water Limited; and

(d) any other financial indebtedness between members of the TWU Financing Group from time to time.

"**Investment Grade**" means a rating of at least Baa3 by Moody's or BBB- by S&P.

"**Investors' Report**" means each report produced by TWUL and the Issuer to be delivered within the earlier of 45 days after publication of the relevant Financial Statements or within 180 days from 31 March or 90 days from 30 September in each year substantially in the form set out in the CTA.

"**IRC**" means the amounts set out under the heading infrastructure renewals charge in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to TWUL in Ofwat's most recent Final Determination adjusted as appropriate for any subsequent IDOK and for Out-turn Inflation, provided that for the purposes of calculating any financial ratio for any Test Period for which there is no Final Determination, "IRC" shall be TWUL's good faith present estimate of such infrastructure renewals charge for such Test Period.

"**ISDA Master Agreement**" means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multi-Currency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

"**Issue Date**" means the date of issue of any Tranche of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and the Issuer or, as the case may be, TWUF makes a utilisation of that facility.

"**Issue Price**" means the price as stated on the relevant Final Terms, generally expressed as a percentage of the nominal amount of the Bonds, at which the Bonds will be issued.

"**Issuer**" means Thames Water Utilities Cayman Finance Limited, a company incorporated in the Cayman Islands with limited liability under registration number MC-187772.

"**Issuer/TWUL Loan Agreement**" means any loan agreement entered into between the Issuer and TWUL, including the Initial Issuer/TWUL Loan Agreement.

"**Joint Venture**" means any arrangement or agreement for any joint venture, co-operation or partnership pursuant to, required for or conducive to the operation of the Business by

TWUL but shall exclude any arrangements or framework agreements entered into with a Contractor which are in accordance with and subject to the Outsourcing Policy.

"**June Return**" means the detailed annual return of regulatory information submitted to Ofwat by all undertakers.

"**K**" means the adjustment factor set for each year by Ofwat by which charges made by Regulated Companies for water supply and sewerage services may be increased, decreased or kept constant.

"**Kemble Consortium**" means the consortium led by the Macquarie European Infrastructure Fund, Macquarie European Infrastructure Fund II and Macquarie Bank Limited and acting through its acquisition vehicle, Kemble Water Limited.

"**Kemble Water Group**" means Kemble Water (Holdings) Limited and all its Subsidiaries from time to time.

"**Lead Manager**" means in relation to any Tranche of Bonds, the person named as the lead manager in the relevant Subscription Agreement.

"**Lease Calculation Cashflow**" means, in respect of any Test Period commencing on 1 April in any year, for any Finance Lease, a cashflow statement produced by the relevant Finance Lessor on, or as soon as reasonably practicable after, its Lease Calculation Date occurring prior to the commencement of such Test Period and in accordance with its terms, the CTA and the terms of the relevant Accession Memorandum, and using, *inter alia*, for the purposes of calculating the amount shown for each Rental Payment Date falling within the relevant Test Period under the heading "**interest**" (or the equivalent thereof (howsoever worded)) in such cashflow statement, a rate of LIBOR, estimated, as at its Lease Calculation Date, by reference to the average of those rates per annum being offered by certain reference banks to prime banks in the London interbank market for entry into 12 month (or such other period as is equal to the relevant Rental Period under such Finance Lease) forward contracts, commencing on each Rental Payment Date arising during the period commencing on such Lease Calculation Date and ending on the last Rental Payment Date to occur during the relevant Test Period and as agreed between TWUL and the relevant Finance Lessor (provided that, where any Finance Lease contains Rentals which are calculated by reference to a fixed rate of interest, any Lease Calculation Cashflow produced in respect of that Finance Lease shall reflect the actual fixed rate of interest implicit in such Rental calculations), provided that where in respect of any Finance Lease there has been a change of assumption resulting in an increase or decrease in the Rental payable thereunder during any Test Period commencing on 1 April in any year, the Lease Calculation Cashflow applicable to that Finance Lease for such Test Period shall also include a cashflow statement, produced as soon as reasonably practicable after the time of recalculating the Rental and in accordance with its terms, and the terms of the relevant Accession Memorandum and using, in such cashflow statement, the same estimated interest rates as were used in preparation of the original cashflow statement prepared on or as soon as reasonably practicable after the Lease Calculation Date applicable to that Test Period.

"**Lease Calculation Date**" means in respect of any Existing Finance Lease:

(a) the Initial Issue Date; and

(b) the date falling 10 days before the Rental Payment Date immediately preceding 1 April 2008; and

(c) each yearly anniversary of the date referred to in (b) above;

(d) and in respect of any other Finance Lease, means:

  (i) the date of the Accession Memorandum executed by the relevant Finance Lessor relating to such Finance Lease; and

(ii) the date falling 10 days before the Rental Payment Date immediately preceding the commencement date of the first Test Period to commence on 1 April immediately after the date referred to in (i) above; and

(iii) each yearly anniversary of the date referred to in (ii) above,

save that where any date referred to in (b), (c) (i), (ii) or (iii) is not a Business Day, such date shall be deemed to be the immediately preceding Business Day.

"**Lease Reserve Amount**" means in respect of any Finance Lease in any Test Period commencing on 1 April in any year, the lower of (i) the aggregate Notional Amount calculated with respect to such Finance Lease; and (ii) the aggregate amount of rental payments payable to the Finance Lessor under such Finance Lease during such Test Period (inclusive of VAT) (after adding back any additional rentals (inclusive of VAT) payable and deducting any estimated rental rebates (inclusive of any credit for VAT), in each case as determined in accordance with the provisions of the relevant Finance Lease).

"**Legacy Bonds**" means the following bonds issued by TWUF pursuant to the Legacy Bond Trust Deeds:

(a) £175,000,000 3.375 per cent. index-linked guaranteed notes due 2021;

(b) £330,000,000 6.75 per cent. guaranteed bonds due 2028; and

(c) £200,000,000 6.50 per cent. guaranteed bonds due 2032.

"**Legacy Bond Trust Deeds**" means the bond trust deeds in relation to the Legacy Bonds, namely:

(a) in respect of the Legacy Bonds referred to in paragraph (a) of the definition of Legacy Bonds, the amended and restated trust deed dated 5 October 2001 (as amended and supplemented from time to time) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.;

(b) in respect of the Legacy Bonds referred to in paragraph (b) of the definition of Legacy Bonds, the trust deed dated 9 October 1997 (as amended by a supplemental trust deed dated 22 October 1998) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.; and

(c) in respect of the Legacy Bonds referred to in paragraph (c) of the definition of Legacy Bonds, the amended and restated trust deed dated 9 October 1997 (as amended by a supplemental trust deed dated 22 October 1998 and a supplemental trust deed dated 22 October 1999) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.,

in each case, as amended pursuant to a deed of variation dated 14 February 2008 as further amended or supplemented from time to time.

"**Legacy Bond Trustee**" means Deutsche Trustee Company Limited or any successor thereto.

"**LIBOR**" has the meaning given to that term in the relevant Finance Document.

"**Licence**" or "**Instrument of Appointment**" means the instrument of appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the then Secretary of State for the Environment appointed TWUL as a water undertaker under that Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

"**Licence Condition**" means any of the conditions contained in the Licence.

"**Liquidity Facility**" means a DSR Liquidity Facility or an O&M Reserve Facility made under a Liquidity Facility Agreement and "**Liquidity Facilities**" means all of them.

"**Liquidity Facility Agent**" means, in respect of the Initial DSR Liquidity Facility Agreement and the Initial O&M Reserve Facility Agreement, The Royal Bank of Scotland plc and, in respect of any other Liquidity Facility Agreement, the facility agent under such Liquidity Facility Agreement.

"**Liquidity Facility Agreement**" means each liquidity facility agreement which has the characteristics set out in Schedule 13 (*DSR Liquidity Facility/O&M Reserve Facility Terms*) of the CTA, as established in connection with each Sub-Class of Bonds issued by or other Authorised Credit Facility provided to the Issuer or TWUL or with shortfalls in funding for Projected Operating Expenditure or projected Capital Maintenance Expenditure, each counterparty to which has acceded to the terms of the STID and the CTA.

"**Liquidity Facility Arranger**" means, in respect of any Liquidity Facility Agreement, the arranger under such Liquidity Facility Agreement.

"**Liquidity Facility Provider**" means any lender from time to time under a Liquidity Facility Agreement that has agreed to be bound by the terms of the STID and the CTA, including the DSR Liquidity Facility Providers and the O&M Reserve Facility Providers.

"**Listing Rules**" means the Listing Rules of the Financial Services Authority.

"**London Stock Exchange**" means The London Stock Exchange plc.

"**Macquarie Bank Group**" means Macquarie Bank Limited, any company Controlled by Macquarie Bank Limited, any company by which Macquarie Bank Limited is Controlled or any company in common Control with Macquarie Bank Limited from time to time.

"**Major Capex Projects**" means each of (a) the Upper Thames Reservoir; (b) the construction of the Thames waste water tunnel known as "Project Tideway"; and (c) any other substantive capital expenditure project to be undertaken by TWUL in connection with its Appointed Business where the net present value of the estimated total capital expenditure is equal to or greater than 10 per cent. of RCV.

"**Majority Creditors**" means the Class A DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class A Debt or following repayment in full of the Class A Debt, Class B DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class B Debt (in each case, subject to Clause 8 (*Modifications, Consents and Waivers*) and Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID) as set out in Chapter 7 "*Overview of the Financing Agreements*").

"**Make-Whole Amount**" means any amount above par payable on redemption of any Senior Debt except where such amount is limited to accrued interest.

"**Mandatory Cost Rate**" means, in relation to any Authorised Credit Facility, the addition to the interest rate payable to compensate that Authorised Credit Provider for the cost of compliance with the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) in accordance with the formula(e) set out in the relevant Authorised Credit Facility.

"**Master Definitions Agreement**" or "**MDA**" means the master definitions agreement entered into on the Initial Issue Date and between, among others, the Obligors, the Bond Trustee and the Security Trustee as amended and restated on 25 July 2008 and as amended from time to time.

"**Material Adverse Effect**" means the effect of any event or circumstance which is materially adverse, taking into account the timing and availability of any rights or remedies under the WIA or the Instrument of Appointment, to:

(a) the financial condition of TWUL, the Issuer, TWUF or of the TWU Financing Group taken as a whole;

(b) the ability of any member of the TWU Financing Group to perform its material obligations under any Finance Document;

(c) the validity or enforceability of any Finance Document or the rights or remedies of any Secured Creditor thereunder; or

(d) the ability of TWUL to perform or comply with any of its material obligations under the Instrument of Appointment or the WIA.

"**Material Capex Contract**" means:

(a) any Capex Contract; and/or

(b) any series of Capex Contracts entered into by TWUL with one or more contractors within the same corporate group (but excluding any such Capex Contracts which have expired and/or terminated),

where, in the case of (a) and/or (b) above, the aggregate annual value of such Capex Contract or all such Capex Contracts is equal to or greater than 5 per cent. of RCV.

"**Material Outsourcing Agreement**" means:

(a) any Outsourcing Agreement; and/or

(b) any series of Outsourcing Agreements entered into by TWUL with one or more contractors within the same corporate group (but excluding any such Outsourcing Agreements which have expired and/or terminated),

where, in the case of (a) and/or (b) above, the aggregate annual value of such Outsourcing Agreement or all such Outsourcing Agreements is equal to or greater than 5 per cent. of RCV.

"**Maturity Date**" means the date on which a Bond is expressed to be redeemable or any other Authorised Credit Facility is expressed to be repayable in full.

"**Member State**" means one of the 27 countries within the European Union.

"**Minimum Short-Term Rating**" means, in respect of any person or investment, such person's or investment's short-term unsecured debt obligations being rated, in the case of Moody's, "Prime-1" and in the case of S&P, "A-1".

"**Ml/d**" means megalitres per day.

"**Monthly Payment Amount**" has the meaning set out in Paragraph 6.11 of Schedule 11 (Cash Management) to the CTA, approximately (and subject to adjustment) equal to 1/12th of TWUL's Annual Finance Charge for the relevant twelve month period.

"**Moody's**" means Moody's Investors Service, Limited, or any successor to the rating agency business of Moody's Investors Service, Limited.

"**Net Cash Flow**" means:

(a) in respect of any historical element of a Test Period, the aggregate of net cash flow from operating activities as shown in the TWUL financial statements (after adding back, without double counting, and to the extent that such items are included in net cash flow from operating activities, any exceptional items (including the initial transaction fees payable on the Initial Issue Date) to the extent such items represent expenditure of TWUL and/or are included in the net cash flow from operating activities as shown in TWUL's financial statements, any recoverable VAT, any Capital Expenditure, any movement in debtors and/or creditors relating to Capital Expenditure and any Deferrals of K) minus any exceptional items to the extent such items represent receipts of TWUL and/or are included in the net cash flow from operating activities as shown in TWUL's financial statements and corporation tax paid (other than in respect of interest received on the Intra-Group Loan between TWUL and TWH) which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any Intra-Group Debt Service Distribution, during such Test Period; and

(b) in respect of any forward-looking element of a Test Period, the aggregate of anticipated net cash flow from operating activities (after adding back, without double counting and to the extent that such items are included in the anticipated net cash flow from operating activities, any exceptional items to the extent such items represent expenditure of TWUL and/or are included in the net cash flow from operating activities as shown in TWUL's financial statements, any recoverable VAT, any Capital Expenditure any movement in debtors and/or creditors relating to Capital Expenditure and any Deferrals of K in each case anticipated to occur during such Test Period) minus any exceptional items to the extent such items represent receipts of TWUL and/or are included in the net cash flow from operating activities as shown in TWUL's financial statements and corporation tax which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any Intra-Group Debt Service Distributions anticipated to be paid during such Test Period less any anticipated net cash flow from operating activities of its business other than its Appointed Business and after adding back corporation tax anticipated to be paid (other than in respect of interest received on the Intra-Group Loan between TWUL and TWH) as a result of such businesses during such Test Period.

"**New Money Advance**" means any drawing during a Standstill under any Authorised Credit Facility which is not made (or to the extent not made) for the purpose of refinancing a drawing under such Authorised Credit Facility.

"**Non-Appointed Expense**" means any expense incurred in connection with activities other than Appointed Business.

"**Non-Base Currency**" means a currency other than pounds sterling.

"**Notice**" or "**notice**" means, in respect of a notice to be given to Bondholders, a notice validly given pursuant to Condition 17 (*Notices*).

"**Notified Item**" means any item formally notified by Ofwat to TWUL as not having been allowed for in full or part in K provided that there has been no Periodic Review subsequent to that notification.

"**Notional Amount**" means, in respect of any Finance Lease, a sum, certified by any Authorised Signatory of the relevant Finance Lessor on each Lease Calculation Date and using the relevant Lease Calculation Cashflow relating thereto as being, for the succeeding Test Period commencing on 1 April, the amount shown for each Rental Payment Date falling in that relevant Test Period under the headings "**interest**" and "**margin**" (or any equivalents thereof (howsoever worded)) in such Lease Calculation Cashflow, together with

an amount equal to the VAT on such amount at the rate applicable to rentals payable under the relevant Finance Lease.

"**O&M Reserve**" means the amounts standing to the credit of the O&M Reserve Accounts.

"**O&M Reserve Accounts**" means the accounts of TWUL and/or the Issuer entitled "O&M Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account or accounts from time to time.

"**O&M Reserve Facility**" means any operation and maintenance reserve liquidity facility made available under a Liquidity Facility Agreement.

"**O&M Reserve Facility Agreement**" means an agreement establishing an O&M Reserve Facility.

"**O&M Reserve Facility Provider**" means any provider from time to time of an O&M Reserve Facility.

"**O&M Reserve Required Amount**" means not less than 10 per cent. of TWUL's Projected Operating Expenditure and Capital Maintenance Expenditure for the forthcoming Test Period as determined on 31 March in each year in its budget for that Test Period.

"**Obligors**" means the Issuer, TWUF, TWUL, TWUCFH and TWH and "**Obligor**" means any of them.

"**Official List**" means the official list of the UKLA.

"**OFT**" means the Office of Fair Trading in the United Kingdom.

"**Ofwat**" means the WSRA including its successor office or body.

"**Operating Accounts**" means each account at the Account Bank specified in the Account Bank Agreement as an Operating Account including any replacement account or other operating accounts from time to time.

"**Order**" means the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

"**Ordinary Drought Order**" means a drought order, which may be issued by the Secretary of State (in England) or the National Assembly for Wales (in Wales) on application by a Regulated Company, pursuant to section 73(1) of the WRA (as amended by the Environment Act 1995 and the Water Act).

"**Other Parties**" means the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Existing Finance Lessors, the Agents, the Account Bank, the Standstill Cash Manager and members of the Thames Water Group (other than the Obligors).

"**Outsourcing Agreement**" means any agreement pursuant to which TWUL sub-contracts, tenders or outsources either the day-to-day operation of its assets, business services and service delivery (including any maintenance expenditure) or acquires technical know-how and access to other Intellectual Property Rights in relation to water services that, in the case of any outsourcing TWUL could, if not outsourced, perform itself.

"**Outsourcing Policy**" means the outsourcing policy set out in Schedule 8 (Outsourcing Policy) to the CTA (as amended or replaced from time to time).

"**Outstanding**" means, in relation to the Bonds of all or any Sub-Class, all the Bonds of such Sub-Class issued other than:

(a) those Bonds which have been redeemed pursuant to the Bond Trust Deed;

(b) those Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Bondholders in accordance with Condition 17 (*Notices*)) and remain available for payment against presentation of the relevant Bonds and/or Receipts and/or Coupons;

(c) those Bonds which have been purchased and cancelled in accordance with Condition 8(f) and (Redemption, Purchase and Cancellation - Cancellation);

(d) those Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 13 (*Prescription*);

(e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);

(f) (for the purpose only of ascertaining the nominal amount of the Bonds Outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*); and

(g) in the case of Bearer Bonds, any Global Bond to the extent that it shall have been exchanged for Definitive Bonds or another Global Bond and, in the case of Registered Bonds, any Global Bond Certificate to the extent that it shall have been exchanged for Individual Bond Certificates, and, in each case, pursuant to its provisions, the provisions of the Bond Trust Deed and the Agency Agreement,

PROVIDED THAT for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the holders of the Bonds of any Sub-Class;

(ii) the determination of how many and which Bonds of any Sub-Class are for the time being outstanding for the purposes of Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*), Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID and Paragraphs 2, 5, 6 and 13 of Schedule 4 to the Bond Trust Deed;

(iii) any discretion, power or authority (whether contained in the Bond Trust Deed or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Bonds of any Sub-Class; and

(iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Bonds of any Sub-Class,

those Bonds of the relevant Sub-Class (if any) which are for the time being held by or on behalf of the Issuer, the other Obligors, or any Associate of the Issuer or the other Obligors (other than any Associate which is a licensed or regulated financial institution which holds Bonds in the ordinary course of its business), in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain Outstanding.

"**Outstanding Principal Amount**" means, as at any date that the same falls to be determined:

(a) in respect of Wrapped Bonds (unless an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Bonds), aggregate of any unpaid amounts owing to a Financial Guarantor under a G&R Deed to reimburse it for any amount paid by it under a Financial Guarantee in respect of unpaid principal on such Wrapped Bonds and the Principal Amount Outstanding (or the Equivalent Amount) under such Wrapped Bonds (including, any premium);

(b) in respect of Wrapped Bonds (if an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Bond), the Principal Amount Outstanding (or the Equivalent Amount) of such Wrapped Bond (including any premium);

(c) in respect of the Secured TWUF Bonds, the Principal Amount Outstanding (or the Equivalent Amount) of such Secured TWUF Bonds;

(d) in respect of Unwrapped Debt, the principal amount outstanding (or the Equivalent Amount) of such Unwrapped Debt;

(e) in respect of each Finance Lease, the Equivalent Amount of either (i) prior to an Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) under such Finance Lease and subject to any increase or reduction calculated in accordance with Clause 9.9 (Notification of Outstanding Principal Amount of Qualifying Debt) of the STID, the highest termination value which may fall due during the Rental Period encompassing such date, calculated upon the assumptions set out in the cashflow report provided by the relevant Finance Lessor on the first day of each such Rental Period (or in the most recently generated cashflow report which is current on such date) or (ii) following any Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) under such Finance Lease, the actual amount (if any) that would be payable to the relevant Finance Lessor in respect of a termination of the leasing of the Equipment on the date of such Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event);

(f) in respect of each Hedging Agreement, the Equivalent Amount of the amount (if any) that would be payable to the relevant Hedge Counterparty if an early termination date was designated on such date in respect of the transaction or transactions arising under the Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to the overriding provisions contained in the CTA and/or the STID; and

(g) in respect of any other Secured Liabilities not covered elsewhere, the Equivalent Amount of the outstanding principal amount of such debt on such date in accordance with the relevant Finance Document,

all as most recently certified or notified to the Security Trustee, pursuant to Clause 9.9 (*Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID.

"**Out-turn Inflation**" means, in respect of any period for which the relevant indices have been published, the actual inflation rate applicable to such period determined by reference to movements in the Retail Price Index adjusted, as appropriate, in the case of capital additions, for any divergence between the actual movement of national construction costs, as evidenced by the Construction Output Price Index (or such other index as Ofwat may specify for the purposes of Licence Condition B or otherwise)) relative to the Retail Price Index from their base levels as used in the most recent Final Determination or IDOK and their relative movement as projected by Ofwat for the purposes of that determination, and,

in respect of any period, including future periods, for which the relevant indices have not yet been published, by reference to forecast rates consistent with the average monthly movement in such indices over the previous 12 months for which published indices are available.

"**Parent**" means Thames Water Limited, a company incorporated in England and Wales with limited liability (registered number 02366623).

"**Participating Member State**" means a member state of the European Community that adopts or has adopted the Euro as its lawful currency under the legislation of the European Union for European Monetary Union.

"**Partly Paid Bond**" means a bond issued in the amount as specified in the relevant Final Terms and in respect of which further instalments will be payable in the amounts and on the dates as specified in the relevant Final Terms.

"**Party**" means in relation to a Finance Document a party to such Finance Document.

"**Paying Agents**" means, in relation to all or any Sub-Classes of the Bonds, the several institutions (including, where the context permits, the Principal Paying Agent and/or the Registrar) at their respective specified offices initially appointed as paying agents in relation to such Bonds by the Issuer and the Obligors pursuant to the Agency Agreement and/or, if applicable, any successor paying agents at their respective specified offices in relation to all or any Sub-Classes of the Bonds.

"**Payment Date**" means each date on which a payment is made or is scheduled to be made by an Obligor in respect of any obligations or liability under any Authorised Credit Facility.

"**Payment Priorities**" means the order of priority of the Permitted Payments to be made by the Issuer on each Payment Date as set out in Chapter 7 "*Overview of the Financing Agreements*" under "*Cash Management*" as adjusted following the taking of any Enforcement Action and following termination of a Standstill (other than pursuant to a waiver or revocation by the Majority Creditors or a Secured Creditor (as applicable)) in accordance with Paragraph 9.3 of Schedule 11 (*Cash Management*) to the CTA.

"**Perfection Requirements**" means the making of the appropriate registrations of the Security Documents with, *inter alia*, the Registrar of Companies.

"**Periodic Information**" means:

(a) TWUL's annual charges scheme with details of tariffs;

(b) a summary of TWUL's strategic business plan at each Periodic Review;

(c) TWUL's current Procurement Plan (if any);

(d) TWUL's annual drinking water quality report;

(e) TWUL's annual environmental report;

(f) TWUL's annual conservation and access report; and

(g) such other material periodic information compiled by TWUL for Ofwat.

"**Periodic Review**" means the periodic review of K as provided for in Licence Condition B, being the process by which annual price limits are set for companies holding appointments as water undertakers or as water and sewerage undertakers.

"**Periodic Review Effective Date**" means the date with effect from which the new K will take effect, following a Periodic Review.

"**Periodic Review Period**" means the period commencing on a Periodic Review Effective Date and ending on the next Date Prior.

"**Permanent Global Bond**" means in relation to any Sub-Class of Bearer Bonds a global bond in the form or substantially in the form set out in Schedule 2, Part B to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the Relevant Dealers, together with the copy of each applicable Final Terms annexed thereto, comprising some or all of the Bearer Bonds of the same Sub-Class, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed in exchange for the whole or part of any Temporary Global Bond issued in respect of such Bearer Bonds.

"**Permitted Acquisition**" means any of the following carried out by TWUL (and, in the case of paragraph (f), the newly incorporated special purpose company referred to therein):

(a) an acquisition (including of Authorised Investments), but not of any company or shares therein, partnership or Permitted Joint Venture, made on arm's length terms and in the ordinary course of trade;

(b) an acquisition of assets required to replace surplus, obsolete, worn-out, damaged or destroyed assets which in the reasonable opinion of TWUL are required for the efficient operation of its Business or in accordance with the Finance Leases;

(c) an acquisition of assets (but not of any company or shares therein, partnership or Permitted Joint Venture) made on arm's length terms entered into for bona fide commercial purposes in furtherance of TWUL's statutory and regulatory obligations;

(d) all contracts entered into by TWUL from time to time in relation to supplies of electricity, gas or water;

(e) an inset business in the United Kingdom which is or will be included in RCV and which breaches neither the Instrument of Appointment nor the WIA;

(f) (i) an acquisition or subscription of shares by TWUL in any newly incorporated special purpose holding company established for the purpose of acquiring the issued share capital of the Issuer; and (ii) the acquisition by such newly incorporated special purpose holding company of the shares of the Issuer; and

(g) any acquisition made or Permitted Joint Venture entered into with the consent of the Security Trustee.

"**Permitted Book Debt Disposal**" means the disposal of book debts in each financial year with a nominal value of up to 0.1 per cent. of RCV (or a greater amount with the prior consent of the Security Trustee) by TWUL on arm's length terms to any person other than an Affiliate, where:

(a) such book debts are sold to a person or persons whose business is the recovery of debts;

(b) TWUL has made a prudent provision in its accounts against the non-recoverability of such debts;

(c) any write-back of any provision for non-recoverability arising from the sale can only be treated as operating profit for the purposes of the financial ratios once the relevant recourse period against TWUL has expired; and

(d) the TWUL Business Financial Model is updated to ensure that the transaction is taken into account in calculating all relevant financial ratios under the CTA.

"**Permitted Disposal**" means any disposal made by TWUL which:

(a) is made in the ordinary course of trading of the disposing entity or in connection with an arm's length transaction entered into for bona fide commercial purposes for the benefit of the Business;

(b) is of assets in exchange for other assets comparable or superior as to type, value and quality;

(c) is of Equipment pursuant to the Finance Leases;

(d) would not result in the Senior RAR, calculated for each Test Period by reference to the most recently occurring Calculation Date (adjusted on a pro-forma basis to take into account the proposed disposal), being more than or equal to, prior to the Ratio Step Date, 0.75:1 and from and including the Ratio Step Date, 0.90:1);

(e) is a disposal for cash on arm's length terms of any surplus or obsolete or worn-out assets which, in the reasonable opinion of TWUL, are not required for the efficient operation of its Business and which does not cause a Trigger Event under Paragraph 1, Part 1 (Trigger Events) of Schedule 5 to the CTA;

(f) is made pursuant to the Outsourcing Policy;

(g) is a Permitted Book Debt Disposal;

(h) is a disposal of Protected Land (as that term is defined in the WIA) in accordance with the terms of the Instrument of Appointment;

(i) is a disposal or surrender of tax losses which is a Permitted Tax Loss Transaction;

(j) is the disposal of assets owned by TWUL which form part of its Permitted Non-Appointed Business;

(k) is any other disposal which is in accordance with the Instrument of Appointment provided that the consideration (both cash and non-cash) received by TWUL (or which would be received by TWUL if such disposal was made on arm's length terms for full commercial value to an unconnected third party) in respect of any such disposal when aggregated with all other such disposals by it made in (i) the immediately preceding twelve month period does not exceed 2.5 per cent. of RCV (or its equivalent) and (ii) in the immediately preceding five-year period does not exceed 10 per cent. of RCV (or its equivalent);

(l) is a disposal of assets to a partnership or a Permitted Joint Venture made on arm's lengths terms entered into for bona fide commercial purposes in furtherance of TWUL's statutory and regulatory obligations;

(m) is a Permitted Sale and Leaseback; or

(n) any disposal pursuant to the Permitted Reorganisation,

provided that in each case such disposal does not cause any of the Trigger Event Ratio Levels to be breached.

"**Permitted EIB Compulsory Prepayment Event**" means a demand for prepayment of an Existing Authorised Credit Facility by the Existing Authorised Credit Provider pursuant to Article 4.03(A) of the relevant Existing Authorised Credit Finance Contract save that

TWUL will not make payment to the Existing Authorised Credit Provider of any sums due and payable in respect of such demand for prepayment if (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations and Permitted EIB Compulsory Prepayment Events in respect of other Existing Authorised Credit Facilities) has occurred; or (ii) a Default Situation is subsisting or would occur as a result of such payment.

"**Permitted Emergency Action**" means any remedial action taken by TWUL during an Emergency which is in accordance with the policies, standards and procedures for emergency planning manual (EMPROC) of TWUL (as amended from time to time), Ofwat guidance notes and Public Procurement Rules and which TWUL considers necessary and which continues only so long as required to remedy the Emergency but in any event no longer than 28 days or such longer period as is agreed by TWUL and the Security Trustee.

"**Permitted Existing Non-Appointed Business**" means any business other than the Appointed Business which was carried on by TWUL at the Initial Issue Date and (a) which falls within the Permitted Non-Appointed Business Limits applicable to Permitted Existing Non-Appointed Business, and (b) in respect of which all material risks related thereto are insured in accordance with the provisions relating to insurance contained in the CTA, and (c) which does not give rise to any material actual or contingent liabilities for TWUL that are not properly provided for in its financial statements.

"**Permitted Financial Indebtedness**" means:

(a) Financial Indebtedness incurred under the Issuer/TWUL Loan Agreement, the TWUF/TWUL Loan Agreements or the TWUL/TWH Loan Agreements;

(b) Financial Indebtedness incurred by one member of the TWU Financing Group to another member if the recipient of that Financial Indebtedness is an Obligor;

(c) Financial Indebtedness incurred under any Finance Document;

(d) Financial Indebtedness incurred under a Treasury Transaction provided (i) it is in compliance with the Hedging Policy; or (ii) it is a Treasury Transaction entered into by TWUL in the ordinary course of its business to manage risk inherent in its business for non-speculative purposes only and not in respect of any Financial Indebtedness;

(e) any Unsecured TWUF Bond Debt;

(f) any unsecured Financial Indebtedness (excluding Unsecured TWUF Bond Debt) provided that:

    (i) the aggregate amount of such Financial Indebtedness does not exceed 0.80 per cent. of RCV; and

    (ii) if such unsecured Financial Indebtedness is incurred following the occurrence of the Permitted Unsecured Financial Indebtedness Trigger whilst any Unsecured TWUF Bond Debt remains outstanding, the Obligors may not incur any additional Permitted Financial Indebtedness under this paragraph (f) for so long as any Unsecured TWUF Bond Debt remains outstanding if, as a result of such incurrence, the aggregate Permitted Financial Indebtedness outstanding under paragraphs (e) and (f)(i) of this definition would exceed 0.80 per cent. of RCV;

(g) any Subordinated Debt entered into after the Initial Issue Date;

(h) Financial Indebtedness incurred under the Intra-Group Loans;

(i) Financial Indebtedness where only BACS or similar daylight-banking accommodation is provided

(j) such further Financial Indebtedness incurred by the Issuer, TWUF or TWUL that complies with the following conditions:

(i) at the time of incurrence of that Financial Indebtedness, no Default is continuing or will arise as a result of the incurrence of such Financial Indebtedness;

(ii) the Financial Indebtedness is made available pursuant to an Authorised Credit Facility the provider of which is a party to, or has acceded to, the CTA and STID;

(iii) as a result of the incurrence of the Financial Indebtedness:

(A) neither TWUL nor the Issuer nor TWUF will be in breach of the liquidity facility or financial covenants contained in the CTA; and

(B) no Authorised Credit Provider will have substantially better or additional entrenched Rights under the STID than those Authorised Credit Providers providing similar Financial Indebtedness of the same class; and

(C) the Hedging Policy shall continue to be complied with in all respects;

(iv) the Financial Indebtedness which is Class A Debt ranks (save for, if applicable, any Financial Guarantee) *pari passu* in all respects with all other Class A Debt and the Financial Indebtedness that is Class B Debt ranks *pari passu* in all respects with all other Class B Debt;

(v) if such further Financial Indebtedness is Class A Debt or Class B Debt then the Senior RAR (taking into account the proposed incurrence of such debt) must be less than or equal to (i) prior to the Ratio Step Date, 0.75:1; and (ii) from and including the Ratio Step Date, 0.90:1) for each Test Period calculated by reference to the then most recently occurring Calculation Date;

(vi) if such further Financial Indebtedness is Class A Debt then the Class A RAR (taking into account the proposed incurrence of such debt) must be less than or equal to 0.75:1 and the Class A Adjusted ICR must be greater than or equal to 1.30:1 for each Test Period calculated by reference to the then most recently occurring Calculation Date;

(vii) if such further Financial Indebtedness is incurred under a Finance Lease, the amount of that Financial Indebtedness, when aggregated with all other Financial Indebtedness under Finance Leases, shall not exceed an amount 15 per cent. of RCV or its equivalent; and

(viii) to the extent that such Financial Indebtedness is to amortise, each Financial Guarantor and the Security Trustee has granted its written consent to such Financial Indebtedness prior to its incurrence;

(k) Financial Indebtedness incurred under a Permitted Sale and Leaseback; or

(l) such further Financial Indebtedness incurred by any member of the TWU Financing Group with the consent of the Security Trustee.

For the purposes of this definition only, the termination sums payable under a Treasury Transaction that has been terminated shall not be treated as Financial Indebtedness and the occurrence of such event shall not be construed as the incurrence of Financial Indebtedness.

"**Permitted Hedge Termination**" means the termination of a Hedging Agreement in accordance with the Hedging Agreement and the provisions of Schedule 7 (Hedging Policy and Overriding Provisions Relating to Hedging Agreements) of the CTA.

"**Permitted Joint Venture**" means the financing, development, design, carrying out and management by or on behalf of TWUL of any new Joint Venture to which the Security Trustee has consented (such consent not to be unreasonably withheld) pursuant to the terms of the CTA and the operation by or on behalf of TWUL of that Joint Venture in accordance with the criteria set out in the CTA.

"**Permitted Lease Termination**" means any termination of the leasing of all or any part of the Equipment (or the prepayment of the Rentals arising by reason of such termination) in the following circumstances:

(a) *Total Loss*: Pursuant to any provision of a Finance Lease whereby the leasing of all or any part of the Equipment thereunder will terminate following a total loss of such Equipment save that TWUL will not make payment to the relevant Finance Lessor of any sums due and payable under the relevant Finance Lease in respect of such total loss if (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment;

(b) *Illegality*: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where it is unlawful for such Finance Lessor to continue to lease the relevant Equipment save that TWUL will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment; and

(c) *Voluntary Prepayment/Termination*: Pursuant to any provision of a Finance Lease whereby TWUL is or will be entitled to voluntarily terminate (and require payment of a termination sum), or prepay the Rentals relating to the leasing of the relevant Equipment under such Finance Lease provided that (i) no Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) no Default Situation is subsisting or would occur as a result of such prepayment or termination.

"**Permitted New Non-Appointed Business**" means any business other than the Appointed Business and Permitted Existing Non-Appointed Business **provided that** (a) such business: (i) is prudent in the context of the overall business of TWUL and continues to be prudent for the duration of that Permitted New Non-Appointed Business; and (ii) is not reasonably likely to be objected to by the WSRA; and (iii) falls within the Permitted Non-Appointed Business Limits applicable to Permitted Non-Appointed Business; (b) all material risks related thereto are insured in accordance with Good Industry Practice; and (c) such business does not give rise to any material actual or contingent liabilities for TWUL that are not or would not be properly provided for in its financial statements.

"**Permitted Non-Appointed Business**" means Permitted Existing Non Appointed Business and Permitted New Non-Appointed Business.

"**Permitted Non-Appointed Business Income**" means income received by TWUL pursuant to its Permitted Non- Appointed Business.

"**Permitted Non-Appointed Business Limits**" means in respect of Permitted Non-Appointed Business, that the average of the Non-Appointed Expenses during the current Test Period and the immediately two preceding Test Periods does not exceed 5 per cent. of Cash Expenses of TWUL during such Test Periods.

"**Permitted Payments**" means the application of monies credited to the Debt Service Payment Account in accordance with the Payment Priorities.

"**Permitted Post Closing Events**" means:

(a) payment of transaction fees and expenses, to the extent not paid on the Initial Issue Date; or

(b) payments and other actions by any or all Obligors or other entities to enable Kemble Water Limited to pay certain amounts outstanding under the Bridge Facility and related documentation and the discharge of the security created under such documents; or

(c) any other payments listed in writing by TWUL as at the Initial Issue Date and signed by way of approval by the Security Trustee.

"**Permitted Property Lease**" means:

(a) a lease granted in favour of TWUL pursuant to a Permitted Sale and Leaseback;

(b) the lease in respect of Rose Kiln Court granted in favour of TWUL by Thames Water Investments Limited;

(c) the lease in respect of Clearwater Court granted in favour of TWUL by Thames Water Investments Limited; or

(d) the lease in respect of Walnut Court 1 granted in favour of TWUL by Thames Water Investments Limited.

"**Permitted Reorganisation**" means each of the steps referred to in paragraph (f) of the definition of Permitted Acquisition.

"**Permitted Sale and Leaseback**" means:

(a) the sale by TWUL and subsequent leaseback by TWUL of the property located at Walnut Court 2; and

(b) the sale by TWUL and subsequent leaseback by TWUL of the Property located at Spencer House.

"**Permitted Security Interest**" means any security interest falling under paragraphs (a) to (f) (inclusive) below which is created by any Obligor, any security interest falling under paragraphs (g) to (k) (inclusive) below which is created by TWUL or the Issuer or TWUF and any security interest falling under paragraphs (l) to (r) (inclusive) below which is created by TWUL:

(a) a Security Interest created under the Security Documents or contemplated by the Finance Documents;

(b) any Security Interest specified in the cash management provisions of the CTA, if the principal amount thereby secured is not increased;

(c) a Security Interest comprising a netting or set-off arrangement entered into by a member of the TWU Financing Group in the ordinary course of its banking arrangements;

(d) a right of set-off, banker's liens or the like arising by operation of law or by contract by virtue of the provision of any overdraft facility and like arrangements arising as a consequence of entering into arrangements on the standard terms of any bank providing an overdraft;

(e) any Security Interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or government charges which are being contested by the relevant member of the TWU Financing Group in good faith and with a reasonable prospect of success;

(f) any Security Interest created in respect of any pre-judgment legal process or any judgment or judicial award relating to security for costs, where the relevant proceedings are being contested in good faith by the relevant member of the TWU Financing Group by appropriate procedures and with a reasonable prospect of success;

(g) a Security Interest comprising a netting or set-off arrangement entered into under any Hedging Agreement entered into in accordance with the Hedging Policy where the obligations of other parties thereunder are calculated by reference to net exposure thereunder (but not any netting or set-off relating to such Hedging Agreement in respect of cash collateral or any other Security Interest except as otherwise permitted hereunder);

(h) a lien arising under statute or by operation of law (or by agreement having substantially the same effect) and in the ordinary course of business provided that such lien is discharged within 30 days of any member of the TWU Financing Group becoming aware that the amount owing in respect of such lien has become due;

(i) a lien in favour of any bank over goods and documents of title to goods arising in the ordinary course of documentary credit transactions entered into in the ordinary course of trade;

(j) a Security Interest created over shares and/or other securities acquired in accordance with the CTA held in any clearing system or listed on any exchange which arise as a result of such shares and/or securities being so held in such clearing system or listed on such exchange as a result of the rules and regulations of such clearing system or exchange;

(k) a Security Interest approved by the Security Trustee, the holder of which has become a party to the STID;

(l) a Security Interest over or affecting any asset acquired on arm's length terms after the Initial Issue Date and subject to which such asset is acquired, if:

  (i) such Security Interest was not created in contemplation of the acquisition of such asset;

  (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the TWU Financing Group; and

  (iii) unless such Security Interest falls within any of Paragraphs (o) to (r) below, (A) such Security Interest is removed or discharged within six months of the date of acquisition of such asset; or (B) the holder thereof becomes party to the STID;

(m) a Security Interest arising in the ordinary course of business and securing amounts not more than 90 days overdue or if more than 90 days overdue, the original deferral was not intended to exceed 90 days and such amounts are being contested in good faith;

(n) a Security Interest arising under or contemplated by any Finance Leases, Permitted Sale and Leaseback hire purchase agreements, conditional sale agreements or other agreements for the acquisition of assets on deferred purchase terms where the counterparty becomes party to the STID;

(o) a right of set-off existing in the ordinary course of trading activities between TWUL and its suppliers or customers (including, but not limited to, any existing or future bulk water supply contracts, or any existing or future gas or electricity supply contracts;

(p) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business;

(q) any retention of title arrangements entered into by TWUL in the ordinary course of business; or

(r) in addition to any Security Interests subsisting pursuant to the above any other Security Interests **provided that** the aggregate principal amount secured by such Security Interests does not at any time exceed 0.2 per cent. of RCV,

to the extent and for so long, in each case, as the creation or existence of such Security Interest would not contravene the terms of the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or the WIA.

"**Permitted Share Pledge Acceleration**" means the acceleration by the Secured Creditors (subject to the availability of funds) of their respective claims to the extent necessary to apply proceeds of enforcement of the Share Pledges provided by TWH pursuant to the Security Agreement.

"**Permitted Subsidiary**" means the Issuer, TWUF and any other Subsidiary of TWUL from time to time which is acquired by TWUL pursuant to a Permitted Acquisition and is notified in writing to the Security Trustee on or as soon as practicable after the date of such Permitted Acquisition.

"**Permitted Tax Loss Transaction**" means any surrender of tax losses or agreement relating to a Tax benefit or relief (including for the avoidance of doubt an election under section 171A or 179A of the Taxation of Chargeable Gains Act 1992) or any other agreement relating to Tax (including for the avoidance of doubt the payment of any balancing payment pursuant to and in accordance with the provisions of sections 195 to 198 inclusive of the Taxation (International and Other Provisions) Act 2010 between:

(a) an Obligor and another Obligor; or

(b) an Obligor and any other member of the Kemble Water Group (not being an Obligor)

in either case in accordance with various provisions set out in the Tax Deed of Covenant.

"**Permitted Unsecured Financial Indebtedness Trigger**" means the date upon which the aggregate Permitted Financial Indebtedness of the TWU Financing Group under paragraphs (e) and (f)(i) of the definition of Permitted Financial Indebtedness is equal to or less than 0.80 per cent. of RCV.

"**Permitted VAT Accounts System**" means the VAT accounts system to be operated by TWUL for the benefit of the Parent and/ or any member of the TWL VAT Group, including:

(a) the passing through, making (including funding gross payments) and receiving payments to and from HM Revenue & Customs in respect of VAT;

(b) the preparation and maintenance of accounts in respect of VAT; and

(c) preparation of monthly returns in respect of VAT,

(d) in each case on behalf of the Parent and/ or any subsidiary of the Parent.

"**Permitted Volume Trading Arrangements**" means contracts entered into by any member of the Thames Water Group or any Associate thereof (which, in each case, is not a member of the TWU Financing Group) with suppliers for the supply of goods and services to the TWU Financing Group on terms that discounts are available as a result of such arrangements, provided that any Obligor making use of such arrangements will reimburse the relevant member of the Thames Water Group or Associate for any Financial Indebtedness by way of amounts payable by such member of the Thames Water Group or Associate to such supplier as a result of such Obligor making use of such arrangements.

"**Potential Event of Default**" means (other than in any Hedging Agreement, where "**Potential Event of Default**" has the meaning given to it in that Hedging Agreement) an event which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"**Potential Trigger Event**" means any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived become a Trigger Event.

"**Principal Amount Outstanding**" means, in relation to a Secured TWUF Bond, a Bond, Sub-Class or Class, the original face value thereof (in relation to any Indexed Bonds or any Secured TWUF Bonds which are designated as "Indexed Linked Interest" bonds under the applicable pricing supplement or final terms, as adjusted in accordance with the Conditions or, as the case may be, the applicable terms and conditions of the Secured TWUF Bonds) less any repayment of principal made to the holder(s) thereof in respect of such Secured TWUF Bond, Sub-Class or Class.

"**Principal Paying Agent**" means Deutsche Bank AG, London Branch under the Agency Agreement, or its Successors thereto.

"**Procurement Plan**" means the procurement plan (if any) prepared and amended from time to time by TWUL in accordance with its obligations under the Instrument of Appointment after notifying the Security Trustee and consulting with the Security Trustee.

"**Programme**" means the £10,000,000,000 guaranteed bond programme established by the Issuer admitted to the Official List and to the London Stock Exchange.

"**Projected Operating Expenditure**" means at any time, the operating expenditure projected in the operating budget for the Test Period in which such date falls.

"**Prospectus**" means any Prospectus prepared by or on behalf of, and approved by, the Issuer in connection with the establishment of the Programme and/or the issue of the Bonds or any information memorandum or Prospectus prepared by or on behalf of and approved by the Issuer in connection with the general syndication in the interbank market of any Authorised Credit Facility.

“**Protected Land**” means (as the term is defined in the WIA), in relation to a Regulated Company any land which, or any interest or right in or over land which:

(a) was transferred to that company in accordance with a scheme under Schedule 2 to the Water Act 1989 or, where that company is a statutory water company (as defined in Section 219 of the WIA), was held by that company at any time during the financial year ended 31 March 1990;

(b) is or has at any time on or after 1 September 1989 been held by that company for purposes connected with the carrying out of its functions as a water undertaker or sewerage undertaker; or

(c) has been transferred to that company in accordance with a scheme under Schedule 2 to the WIA from another company in relation to which that land was protected when the other company held an Instrument of Appointment,

as such definition may be amended by statute or law.

“**Public Procurement Rules**” means public procurement rules of the United Kingdom and of the European Communities affecting the water and sewerage sector and including any jurisprudence of the courts of the United Kingdom and of the European Communities and decisions of the European Commission in respect of such rules.

“**Qualifying Class A Debt**” means the aggregate Outstanding Principal Amount of Class A Debt entitled to be voted by the Class A DIG Representatives.

“**Qualifying Class B Debt**” means the aggregate Outstanding Principal Amount of Class B Debt entitled to be voted by the Class B DIG Representatives.

“**Qualifying Debt**” means the Qualifying Class A Debt and the Qualifying Class B Debt.

“**RAG 5**” means Regulatory Accounting Guidelines 5 “Transfer pricing in the water industry”, version 5.03.

“**Rating Agencies**” means Moody’s and S&P and any further or replacement rating agency appointed by the Issuer or TWUF with the approval of the Security Trustee (acting upon the instructions of the Majority Creditors) to provide a credit rating or ratings for the Class A Debt and the Class B Debt and underlying ratings in respect of Class A Wrapped Bonds and Class B Wrapped Bonds for so long as they are willing and able to provide credit ratings generally (and “**Rating Agency**” means any one of them).

“**Rating Requirement**” means confirmation from any two Rating Agencies or, where expressly stated, all Rating Agencies then rating the Bonds that, in respect of any matter where such confirmation is required, the shadow rating is, in the case of the Class A Wrapped Bonds, BBB by S&P and Baa2 by Moody’s or above and in the case of the Class A Unwrapped Bonds, is BBB by S&P and Baa2 by Moody’s or above.

“**Ratio Step Date**” means 31 March 2010.

“**RCV**” means, in relation to any date, (i) the regulatory capital value for such date as last determined (excluding any draft determination of the regulatory capital value by Ofwat) and notified to TWUL by Ofwat at the most recent Periodic Review or IDOK or other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review or IDOK (interpolated as necessary and adjusted as appropriate for Out-turn Inflation), provided that “**RCV**” for the purposes of calculating the Senior RAR or Class A RAR for any Test Period for which there is no Final Determination shall be TWUL’s good faith, present estimate of its regulatory capital value on the last day of such Test Period; plus (ii) an amount equal to the Variances attributable to investment in Major Capex Projects.

"**Receipt**" means a receipt attached on issue to a Definitive Bond redeemable in instalments for the payment of an instalment of principal and includes any replacements for Receipts and Talons issued pursuant to Condition 14 (Replacement of Bonds, Coupons, Receipts and Talons).

"**Receiptholders**" means the persons who are for the time being holders of the Receipts.

"**Recognised Ofwat Mechanism**" means any of (i) logging up of RCV, where Ofwat have approved the relevant Capital Expenditure and the Reporter has reviewed and validated the cost of such Capital Expenditure; or (ii) an IDOK, where a Relevant Change of Circumstance has, in the reasonable opinion of TWUL, arisen or (iii) any other similar mechanism as agreed from time to time between Ofwat and TWUL and approved by the Security Trustee.

"**Register**" means a register of the Bondholders of a Sub-Class of Registered Bonds.

"**Registered Bonds**" means those of the Bonds which are for the time being in registered form.

"**Registered Office Agreement**" means the registered office agreement dated 12 July 2007 between the Issuer, M&C Corporate Services Limited (now Maples Corporate Services Limited) and Maples and Calder.

"**Registrar**" means Deutsche Bank Trust Company Americas as a registrar under the Agency Agreement and any other entity appointed as a registrar under the Agency Agreement.

"**Regulated Company**" means a company appointed as a water undertaker or a water and sewerage undertaker under section 6 of the WIA.

"**Regulation S**" has the meaning given to such term under the Securities Act.

"**Relevant Change of Circumstance**" means a "Relevant Change of Circumstance" as defined in Part IV of Licence Condition B.

"**Relevant Date**" has the meaning set out in Condition 6(i) (*Definitions*).

"**Remedial Plan**" means any remedial plan agreed by TWUL and the Security Trustee under Part 2 of Schedule 5 (Trigger Events) of the CTA.

"**Rental**" means any scheduled payment of rental, periodic charge or equivalent sum under a Finance Lease.

"**Rental Payment Date**" means any date on which Rental is scheduled to be paid under any Finance Lease.

"**Rental Period**" means, in respect of a Finance Lease, each period falling between two consecutive Rental Payment Dates under such Finance Lease.

"**Reporter**" means the reporter appointed by TWUL in accordance with Licence Conditions B and C, presently the Halcrow Group.

"**Required Balance**" means, on any Payment Date, the aggregate of the Class A Required Balance and the Class B Required Balance.

"**Reserved Matters**" means matters which, subject to the Intercreditor Arrangements, a Secured Creditor is free to exercise in accordance with its own facility arrangements and not by the direction of the Majority Creditors as more particularly described in the STID.

"**Restricted Payment**" means any Distribution, Deferral of K, or payment under the Subordinated Debt other than:

(a) any payment under any Authorised Credit Facility in accordance with the provisions of the CTA and the STID;

(b) a payment made under a Permitted Tax Loss Transaction;

(c) any Permitted Post-Closing Event; or

(d) an Intra-Group Debt Service Distribution.

"**Restricted Payment Condition**" means each of the conditions which must be satisfied or waived by the Security Trustee before a Restricted Payment may be made by the Issuer, TWUF or TWUL.

"**Retail Price Index**" or "**RPI**" means the all items retail prices index for the United Kingdom published by the Office for National Statistics or at any future date (except in the case of an RPI Linked Hedging Agreement) such other index of retail prices as may have then replaced it for the purposes of Ofwat's determination of price limits for water and sewerage services or (in the case of an RPI Linked Hedging Agreement), such other index or retail prices as specified in such RPI Linked Hedging Agreement.

"**Rights**" means all rights vested in the Security Trustee by virtue of, or pursuant to, its holding the interests conferred on it by the Security Documents or under the Ancillary Documents and all rights to make demands, bring proceedings or take any other action in respect of such rights.

"**Rolling Average Period**" means on each Calculation Date the Test Period ending on 31 March that falls in the same calendar year as that Calculation Date and the next subsequent two consecutive Test Periods save that, where the test comes to be calculated at a time when information is not available in respect of any forward looking Test Period (as a result of Ofwat's determination of price limits for a Periodic Review not having been published in draft or final form) then such Rolling Average Period will be the three 12 month periods which run consecutively backwards and/ or forwards from such Calculation Date for which such information is available for the last Test Period in such calculation.

"**RPI Linked Hedging Agreements**" means a Hedging Agreement with a Hedge Counterparty under which payments to be made by the Issuer, TWUF or, as the case may be, TWUL are indexed by reference to RPI.

"**S&P**" means Standard & Poor's Credit Market Services Europe Limited (trading as Standard & Poor's Ratings Services), a Division of the McGraw Hill Companies Inc., or any successor to the rating agency business of Standard & Poor's Credit Market Services Europe Limited.

"**Secondary Market Guarantor**" means an Eligible Secondary Market Guarantor that has, in respect of any Class A Unwrapped Bonds, (i) delivered an FG Covered Bond Notice to the Security Trustee and the Bond Trustee in accordance with the provisions of the STID; and (ii) acceded to the STID in accordance with the provisions thereof.

"**Secretary of State**" means one of Her Majesty's principal Secretaries of State.

"**Section 19 Undertaking**" means an undertaking given by a Regulated Company to secure or facilitate compliance with a licence condition or a relevant statutory or other requirement and which is capable of direct enforcement under the WIA.

"**Secured Creditor**" means the Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Bondholders, each TWUF Bond Trustee (in its own capacity and on behalf of the relevant

Secured TWUF Bondholders), the Bondholders, the Secured TWUF Bondholders, each Financial Guarantor, each Finance Lessor, the Hedge Counterparties, the Issuer, TWUF, the Liquidity Facility Agents, any Liquidity Facility Arrangers, each Liquidity Facility Provider, the Initial Credit Facility Agent, each Initial Credit Facility Provider and each other Authorised Credit Provider, the Cash Manager (other than when the Cash Manager is TWUL), the Standstill Cash Manager, each Agent and any Additional Secured Creditors.

"**Secured Creditor Representative**" means:

(a) in respect of the Bondholders, the Bond Trustee;

(b) in respect of the Secured TWUF Bondholders, the relevant TWUF Bond Trustee;

(c) in respect of the Initial Credit Facility Providers, the Initial Credit Facility Agent;

(d) in respect of the Issuer/TWUL Loan Agreements and TWUF/TWUL Loan Agreements, the Security Trustee (on behalf of the Issuer or, as the case may be, TWUF);

(e) in respect of any Liquidity Facility Provider, the facility agent under the relevant Liquidity Facility Agreement;

(f) in respect of each of the Existing Hedge Counterparties, the relevant Existing Hedge Counterparty; and

(g) in respect of any Additional Secured Creditor, the representative of such Additional Secured Creditor (if any) appointed as its Secured Creditor Representative under the terms of the relevant Finance Document and named as such in the relevant Accession Memorandum.

"**Secured Liabilities**" means all liabilities incurred by any Obligor to a Secured Creditor pursuant to the Finance Documents.

"**Secured TWUF Bonds**" means the Flipper Bonds together with (i) with effect from 5 September 2007 and (ii) with effect from 14 February 2008, the Legacy Bonds in respect of which the relevant TWUF Bond Trustee has acceded to the STID as a Secured Creditor Representative and a Class A DIG Representative.

"**Secured TWUF Bondholders**" means the holders from time to time of the Secured TWUF Bonds.

"**Secured TWUF Bond Trust Deeds**" means the TWUF Bond Trust Deeds relating to Secured TWUF Bonds.

"**Secured TWUF FG Covered Bond**" means any Secured TWUF Bond in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (provided that such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor).

"**Securities Act**" means the United States Securities Act of 1933, as amended.

"**Security**" means the security constituted by the Security Documents including any Guarantee or obligation to provide cash collateral or further assurance thereunder.

"**Security Agreement**" means the deed of charge and guarantee executed in favour of the Security Trustee by each of the Obligors on the Initial Issue Date.

"**Security Assets**" means all property, assets, rights and undertakings the subject of the Security created by the Obligors pursuant to any Security Document, together with the Rights.

"**Security Documents**" means:

(a) the Security Agreement;

(b) the STID, any deed of accession thereto and any deed supplemental thereto; and

(c) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to a Secured Creditor under the Finance Documents.

"**Security Interest**" means:

(a) any mortgage, pledge, lien, charge, assignment, or hypothecation, or other encumbrance securing any obligation of any person;

(b) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or

(c) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Security of Supply Index**" means the measure used by Ofwat to assess each Regulated Company's ability to supply customers in dry years without imposing demand restrictions, such as hosepipe bans, and which is subject to a maximum of 100.

"**Security Trustee**" means Deutsche Trustee Company Limited or any successor appointed pursuant to the STID.

"**Senior Adjusted ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Senior Debt Interest during such Test Period.

"**Senior Average Adjusted ICR**" means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC to Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

"**Senior Debt**" means all Class A Debt and Class B Debt and any other Financial Indebtedness ranking in priority to Subordinated Debt of any member of the TWU Financing Group.

"**Senior Debt Interest**" means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

(a) all interest, fees or commissions paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or TWUF's and/or the TWUL's obligations under or in connection with all Senior Debt and any Permitted Financial Indebtedness which is unsecured (including all Unsecured TWUF Bond Debt) (other than any Intra-Group Loans);

(b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Wrapped Bonds; and

(c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or TWUF's and/or the TWUL's obligations under and in connection with all Senior Debt,

in each case during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force) (excluding all indexation of principal, amortisation of the costs of issue of any Senior Debt or Unsecured TWUF Bond Debt within such Test Period and all other costs incurred in connection with the raising of such Senior Debt or Unsecured TWUF Bond Debt) less all interest received or in respect of forward-looking ratios, receivable by any member of the TWU Financing Group from a third party during such period (excluding any interest received or receivable by TWUL under any Intra-Group Loan or any loan or other forms of Financial Indebtedness to Associates).

"**Senior Debt Provider**" means a provider of, or Financial Guarantor of, Senior Debt.

"**Senior Net Indebtedness**" means, as at any date, the aggregate of the Issuer's, TWUF's and TWUL's nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) under and in connection with any Senior Debt on such date (including accretions by indexation to the notional amount under any RPI Linked Hedging Agreement and excluding any un-crystallised mark to market amount relating to any Hedging Agreement) and the nominal amount of any Financial Indebtedness pursuant to paragraphs (e) and (f) of the definition of Permitted Financial Indebtedness which is outstanding (or, in respect of a future date, forecast to be outstanding) on such date together with all indexation accrued on any such liabilities which are indexed less the value of all Authorised Investments and other amounts standing to the credit of any Account (other than an amount equal to the aggregate of any amounts which represent Deferrals of K or Distributions which have been declared but not paid on such date); where such debt is denominated other than in pounds sterling, the nominal amount outstanding will be calculated (i) in respect of debt with associated Currency Hedging Agreements, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreements; (ii) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate on such date).

"**Senior RAR**" means, on any Calculation Date, the ratio of Senior Net Indebtedness to RCV as at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

"**Series**" means a series of Bonds issued under the Programme on a particular Issue Date, together with any Tranche or Tranches of Bonds which are expressed to be consolidated and form a single Sub-Class with any previously issued Sub-Class.

"**Sewerage Region**" means the geographical area for which a Regulated Company has been appointed as the sewerage undertaker under Section 6 of the WIA.

"**Share Pledges**" means the pledges dated the Initial Issue Date, in favour of the Security Trustee, over the shares in TWUL and TWUF respectively and the pledges dated 15 October 2007, in favour of the Security Trustee, over the shares in TWUFCH and the Issuer respectively, and "Share Pledge" means any one of them.

"**Shortfall Paragraph**" means to the extent that (after payment of all relevant operating expenditure) there is a shortfall of forecast revenues, the relevant sub-paragraph of the Payment Priorities in relation to which the revenue that is forecast to be available is insufficient to meet all of the payments in such sub-paragraph.

"**Special Administration**" means the insolvency process specific to Regulated Companies under Sections 23 to 26 of the WIA.

"**Special Administration Order**" means an order of the High Court under Sections 23 to 25 of the WIA under the insolvency process specific to Regulated Companies.

“**Special Administration Petition Period**” means the period beginning with the presentation of the petition for Special Administration under Section 24 of the WIA and ending with the making of a Special Administration Order or the dismissal of the petition.

“**Special Administrator**” means the person appointed by the High Court under Sections 23 to 25 of the WIA to manage the affairs, business and property of the Regulated Company during the period in which the Special Administration Order is in force.

“**Standard & Poor’s**” or “**S&P**” means Standard & Poor's Credit Market Services Europe Limited (trading as Standard & Poor’s Ratings Services), a division of the McGraw Hill Companies Inc. or any successor to the rating business of Standard & Poor's Credit Market Services Europe Limited.

“**Standby Drawing**” means a drawing made under a Liquidity Facility Agreement as a result of a downgrade of a Liquidity Facility Provider below the Minimum Short-Term Rating or in the event that the Liquidity Facility Provider fails to renew its commitment on the expiry of the term of such Liquidity Facility Agreement.

“**Standstill**” means, as provided for in Clause 13.1 (*Commencement of Standstill*) of the STID, a standstill of claims of the Secured Creditors against TWUL and the Issuer immediately upon notification to the Security Trustee of the occurrence of an Event of Default.

“**Standstill Cash Manager**” means The Royal Bank of Scotland plc in its capacity as Standstill Cash Manager under the CTA, or any successor Standstill Cash Manager.

“**Standstill Event**” means an event giving rise to a Standstill in accordance with the STID.

“**Standstill Extension**” means any of the periods for which a Standstill Period is extended under Clause 13.5 (*Extension of Standstill*) of the STID.

“**Standstill Period**” means a period during which a standstill arrangement is subsisting, commencing on the date as determined by Clause 13.1 (*Commencement of Standstill*) of the STID and ending on the date as determined by Clause 13.4 (*Termination of Standstill*) of the STID.

“**Statutory Accounts**” means the statutory accounts which TWUL is required to prepare in compliance with the Companies Act.

“**STID**” means the Security Trust and Intercreditor Deed entered into on the Initial Issue Date between, among others, the Security Trustee, the Obligors, the Bond Trustee and the Flipper Bond Trustee.

“**STID Directions Request**” means a written notice of each STID Proposal sent by the Security Trustee to the Secured Creditors or their Senior DIG Representatives and requesting directions from the relevant Secured Creditors in accordance with the STID.

“**STID Proposal**” means a proposal or request made by any Secured Creditor or its Secured Creditor Representative or any Obligor in accordance with the STID proposing or requesting the Security Trustee: to change, modify or waive any term or condition of any Finance Document; to substitute the Issuer; or to take any Enforcement Action or any other action in respect of the transactions contemplated by the Finance Documents; as defined more particularly in the STID.

“**Sub-Class**” means a division of a Class.

“**Subordinated Authorised Loan Amounts**” means, in relation to any Authorised Credit Facility, the aggregate of any amounts payable by the Issuer, TWUF or TWUL to the relevant Authorised Credit Provider on an accelerated basis as a result of illegality (excluding accrued interest, principal and recurring fees and commissions) on the part of the

Authorised Credit Provider or any other amounts not referred to in any other paragraph of the Payment Priorities.

"**Subordinated Creditor**" means the Initial Subordinated Creditor and any other credit provider in respect of Subordinated Debt where such credit provider has acceded to the CTA and the STID.

"**Subordinated Debt**" means the Initial Subordinated Amount and any Financial Indebtedness (other than Financial Indebtedness falling within paragraphs (e) or (f) of the definition of Permitted Financial Indebtedness) that is fully subordinated, in a manner satisfactory to the Security Trustee, to the Senior Debt and where the relevant Subordinated Creditor has acceded to the CTA and the STID.

"**Subordinated Liquidity Facility Amounts**" means, in relation to any Liquidity Facility, the aggregate of any amounts payable by the Issuer or TWUF to the relevant Liquidity Facility Provider in respect of its obligation to gross-up any payments made by it in respect of such Liquidity Facility or to make any payment of increased costs to such Liquidity Facility Provider (other than any such increased costs in respect of regulatory changes relating to capital adequacy requirements applicable to such Liquidity Facility Provider) or to amounts payable on an accelerated basis as a result of illegality (excluding accrued interest, principal and commitment fees) on the part of such Liquidity Facility Provider, or any other amounts not referred to in any other paragraph of the Payment Priorities.

"**Subordinated Step-up Fee Amounts**" means, in the case of Fixed Rate Bonds or Indexed Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms to be payable on such Bonds in excess of the initial margin as at the date on which such Bonds were issued and, in the case of Floating Rate Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms to be payable on such Bonds in excess of the initial margin on the Coupon on such Bonds as at the date on which such Bonds were issued.

"**Subscription Agreement**" means an agreement supplemental to the Dealership Agreement (by whatever name called) substantially in the form set out in Schedule 6 to the Dealership Agreement or in such other form as may be agreed between, among others, the Issuer and the Lead Manager or one or more Dealers (as the case may be).

"**Subsidiary**" means:

(a) a subsidiary within the meaning of the Companies Act; and

(b) unless the context otherwise requires, a subsidiary undertaking within the meaning of the Companies Act.

"**Substantial Effects Clause**" means a clause which may be contained in the instrument of appointment of a Regulated Company and which in the case of TWUL is contained in Part IV of Licence Condition B, pursuant to which the Regulated Company may, if so permitted by the conditions of its Instrument of Appointment, request price limits to be reset if the Appointed Business either (i) suffers a substantial adverse effect which could not have been avoided by prudent management action or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action.

"**Successor**" means, in relation to the Principal Paying Agent, the other Paying Agents, the Registrar, the Transfer Agent, the Agent Bank and the Calculation Agent, any successor to any one or more of them in relation to the Bonds which shall become such pursuant to the provisions of the Bond Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, registrar, transfer agents, agent bank and calculation agent (as the case may be) in relation to the Bonds as may (with the prior approval of, and on terms previously approved by, the Bond Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent being within the same city as the office(s)

for which it is substituted) as may from time to time be nominated, in each case by the Issuer and the Obligors, and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Bondholders.

"**Surveillance Letter**" means a letter issued by the Issuer and/or TWUL to a Financial Guarantor from time to time, in which the Issuer and/or TWUL undertakes to provide the relevant Financial Guarantor with certain information and to comply with certain reporting requirements as outlined in that letter.

"**Swap Collateral Account**" means an account of TWUL, TWUF or the Issuer, as the case may be, into which any collateral provided by a Hedge Counterparty shall be deposited upon the relevant trigger occurring for the provision of such collateral under the terms of the applicable Hedging Agreement.

"**Talonholders**" means the several persons who are for the time being holders of the Talons.

"**Talons**" means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Bonds (other than Zero Coupon Bonds) and includes any replacements for Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

"**TARGET Settlement Day**" has the meaning given to such term in Condition 6(i) (*Definitions*) as set out in Chapter 8 "*The Bonds*".

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions will be construed accordingly.

"**Tax Deed of Covenant**" means the deed of covenant entered into on the Initial Issue Date by, among others, the Security Trustee, the Parent and the Obligors.

"**Temporary Global Bond**" means in relation to any Sub-Class of Bearer Bonds a temporary global bond in the form or substantially in the form set out in Schedule 2, Part A to the Bond Trust Deed together with the copy of the applicable Final Terms annexed thereto, with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Bearer Bonds of the same Tranche, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.

"**Test Period**" means:

(a) the period of 12 months ending on 31 March in the then current year;

(b) the period of 12 months starting on 1 April in the same year;

(c) each subsequent 12 month period up to the Date Prior; and

(d) if the Calculation Date falls within the 13 month period immediately prior to the Date Prior, the 12 month period from the Date Prior,

provided that for the Calculation Dates on 30 September 2007 and 31 March 2008, the first Test Period shall be from 1 April 2007 to 31 March 2008, in the case of the Calculation Date on 30 September 2007 the second Test Period shall be the period of 12 months starting on 1 April in the following year, and interest shall be annualised on the basis of the interest charge from the Initial Issue Date to 31 March 2008.

"**Thames Water Group**" means Kemble Water Holding Limited and its Subsidiaries.

“**Tranche**” means all Bonds which are identical in all respects save for the Issue Date, Interest Commencement Date and Issue Price of the Bonds.

“**Transaction Account**” means the accounts of each of the Issuer and TWUF titled “**Transaction Account**” held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

“**Transaction Documents**” means:

(a) a Finance Document;

(b) a Material Capex Contract or a Material Outsourcing Agreement; and

(c) any other document designated as such by the Security Trustee and the Issuer.

“**Transfer Agent**” means Deutsche Bank Trust Company Americas under the Agency Agreement, including any Successor thereto.

“**Transfer Scheme**” means a transfer scheme under Schedule 2 of the WIA.

“**Treasury Transaction**” means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, interest rate or currency or future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap, index-linked swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate, index or price.

“**Trigger Event**” means any of the events or circumstances identified as such in Chapter 7 “*Overview of the Financing Agreements*” under “*Trigger Events*”.

“**Trigger Event Ratio Levels**” means the financial ratio levels set out in paragraph (i) (Financial Ratios) under “*Trigger Events*” in Chapter 7 “*Overview of the Financing Agreements*”.

“**TWH**” means Thames Water Utilities Holdings Limited.

“**TWUCFH**” means Thames Water Utilities Cayman Finance Holdings Limited, a company incorporated in the Cayman Islands with limited liability under registration number MC-196364.

“**TWH Change of Control**” means (a) any person which previously had Control of TWH ceases to have Control of TWH, (b) any person which did not previously have Control of TWH acquiring Control of TWH, in each case of which the Obligor has actual knowledge provided that any change of Control of any person controlling the Parent shall not constitute a TWH Change of Control.

“**TWL VAT Group**” means the VAT group with registration number GB 905 1000 87.

“**TWU Financing Group**” means TWH, TWUF, TWUL, TWUCFH the Issuer and any other Permitted Subsidiaries.

“**TWUF**” means Thames Water Utilities Finance Limited.

“**TWUF Bonds**” means the Flipper Bonds and the Legacy Bonds.

“**TWUF Bond Trust Deeds**” means the Flipper Bond Trust Deeds and the Legacy Bond Trust Deeds.

"**TWUF Bond Trustee**" means each of the Flipper Bond Trustee and the Legacy Bond Trustee.

"**TWUF/TWUL Loan Agreement**" means any loan agreement entered into between TWUF and TWUL, including the Initial TWUF/TWUL Loan Agreement.

"**TWUL**" means Thames Water Utilities Limited.

"**TWUL Business Financial Model**" means the latest business financial model prepared by TWUL and delivered to the Security Trustee from time to time, in accordance with the CTA.

"**TWUL Change of Control**" means the occurrence of any of the following events or circumstances:

(a) TWH ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, TWUL, in each case directly or indirectly; or

(b) TWUL ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, the Issuer or TWUF.

"**TWUL/TWH Loan Agreement**" means the loan agreement entered into between TWUL and TWH on the Initial Issue Date pursuant to which TWUL advanced £1,200,000,000 to TWH to assist in the partial discharge by TWH of the TWUL share acquisition purchase price payable to Parent.

"**TWUL VAT Group**" means the VAT group registration with registration number GB 537 4569 15 comprising, with effect from 1 July 2007, TWUL, TWUF, the Issuer, TWH and Kemble Water Limited, of which TWUL is the representative member.

"**U.K.**" means the United Kingdom.

"**UK Listing Authority**" or "**UKLA**" means the Financial Services Authority in its capacity as competent authority under the FSMA.

"**Unsecured TWUF Bond Debt**" means the unsecured Financial Indebtedness outstanding under the Legacy Bonds prior to the respective dates on which such Legacy Bonds became Secured TWUF Bonds as set out in the definition thereof.

"**Unsecured TWUF Bond Payment Date**" means each date upon which a payment is made or is scheduled to be made by TWUF or TWUL in respect of any Unsecured TWUF Bond Debt.

"**Unwrapped Bondholders**" means the holders for the time being of the Unwrapped Bonds and "Unwrapped Bondholder" shall be construed accordingly.

"**Unwrapped Bonds**" means Bonds that do not have the benefit of a Financial Guarantee.

"**Unwrapped Debt**" or "**Unwrapped Bond**" means any indebtedness or Bond (respectively) that does not have the benefit of a Financial Guarantee.

"**Variances**" means a numerical addition to the amount of Capital Expenditure assumed by Ofwat in the last Periodic Review as certified by two directors (one of whom shall be the Finance Director) of TWUL in a certificate setting out (a) the amount of the adjustment; (b) the basis of the adjustment; and (c) where relevant, the basis of the reasonable expectation of recovery.

"**VAT**" (a) in respect of any Finance Lease Document, has the meaning given thereto in such Finance Lease Document; and (b) otherwise, means value added tax as imposed by the Value Added Tax Act 1994 and legislation supplemental thereof and other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of, or in addition to, VAT) or elsewhere.

"**VMR Programme**" means the Victorian mains replacement programme.

"**Voted Qualifying Class A Debt**" means the aggregate Outstanding Principal Amount of Class A Debt voted by the Class A DIG Representatives in accordance with the applicable provisions of the STID as part of the Class A DIG.

"**Voted Qualifying Class B Debt**" means the aggregate Outstanding Principal Amount of Class B Debt voted by the Class B DIG Representatives in accordance with the applicable provisions of the STID as part of the Class B DIG.

"**Water Act**" means the Water Act 2003.

"**Water Framework Directive**" means European Council Directive 2000/60/EC.

"**Water Quality Regulations**" means the Water Supply (Water Quality) Regulations 2000, as amended.

"**Water Region**" means the geographical area for which a Regulated Company has been appointed as water undertaker under Section 6 of the WIA.

"**Water Resources Plans**" means a water resource plan which all water companies must submit to the EA pursuant to the WIA (as amended by the Water Act).

"**WIA**" means the United Kingdom Water Industry Act 1991, as amended by subsequent legislation, including the Competition and Service (Utilities) Act 1992, the Water Industry Act 1999 and the Water Act.

"**WRA**" means the United Kingdom Water Resources Act 1991, as amended by subsequent legislation including the United Kingdom Environment Act 1995.

"**Wrapped Bondholders**" means the holders for the time being of the Wrapped Bonds and "**Wrapped Bondholder**" shall be construed accordingly.

"**Wrapped Bonds**" means the Bonds that have the benefit of a Financial Guarantee.

"**WSRA**" means the Water Services Regulation Authority (WSRA, and otherwise known as Ofwat), the economic regulator of the water and Sewerage industry in England and Wales and any relevant successor bodies to the Water Services Regulation Authority.

"**Zero Coupon Bond**" means a Bond specified as such in the relevant Final Terms and on which no interest is payable.

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