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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, J.P. MORGAN SECURITIES LTD., LLOYDS TSB BANK PLC, MACQUARIE BANK LIMITED, LONDON BRANCH, MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC, MORGAN STANLEY & CO. INTERNATIONAL PLC, NATIONAL AUSTRALIA BANK LIMITED, RBC EUROPE LIMITED, SCOTIABANK EUROPE PLC, SOCIÉTÉ GÉNÉRALE 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, J.P. MORGAN SECURITIES LTD., LLOYDS TSB BANK PLC, MACQUARIE BANK LIMITED, LONDON BRANCH, MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC, MORGAN STANLEY & CO. INTERNATIONAL PLC, NATIONAL AUSTRALIA BANK LIMITED, RBC EUROPE LIMITED, SCOTIABANK EUROPE PLC, SOCIÉTÉ GÉNÉRALE OR THE ROYAL BANK OF SCOTLAND PLC or such affiliate on behalf of the Issuer in such jurisdiction.

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Prospectus dated 18 June 2012



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 12 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.

Interests in a Temporary Global Bond (as defined below) will be exchangeable, in whole or in part, for definitive securities in bearer form on or after the date 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*".

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
Deutsche Bank
J.P. Morgan
Morgan Stanley
RBC Capital Markets
Société Générale Corporate & Investment Banking

BNP PARIBAS
HSBC
Lloyds Bank
National Australia Bank Limited
Scotiabank
The Royal Bank of Scotland

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

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. The credit ratings included or referred to in this Prospectus will be treated for the purposes of the CRA Regulation as having been issued by Standard & Poor’s Credit Market Services Europe Limited (“Standard & Poor’s”) and Moody’s Investors Service Limited (“Moody’s”, and together with Standard and Poor’s, the

“Rating Agencies”). Each of Standard & Poor’s and Moody’s is a credit rating agency established and operating in the European Community and is registered under the CRA Regulation.

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.

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.

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. Ratings ascribed to all of the Bonds reflect only the views of 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 be €100,000 (or its equivalent in any other currency as at the date of issue of the 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.

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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 the 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/exchange/prices-and-news/news/market-news/market-news-home.html>.

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 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.

None of the Issuer, any member of the TWU Financing Group, any member of the Thames Water Group, the Dealers, the Bond Trustee, the Security Trustee, the Financial Guarantors or the Other Parties accept responsibility to investors for the regulatory treatment of their investment in the Bonds (including (but not limited to) whether any transaction or transactions pursuant to which Bonds are issued from time to time is or will be regarded as constituting a “securitisation” for the purpose of the EU Capital Requirements Directive (Directive numbers 2006/48/EC and 2006/49/EEU as amended by Directive 2009/111/EC (the “CRD”)) by any regulatory authority in any jurisdiction. If the regulatory treatment of an investment in the Bonds is relevant to any investor's decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the “*Risk Factors — Legal, Regulatory and Competition Considerations*” section of this Prospectus for further information.

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. Any prospective Bondholder should take its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment.

THE BONDS AND THE GUARANTEES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")).

THE BONDS ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF NOTES AND DISTRIBUTION OF THIS PROSPECTUS SEE "*SUBSCRIPTION AND SALE*".

THE BONDS AND THE GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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) the Terms and Conditions of the Bonds as contained at pages 168 to 205 (inclusive) of the base prospectus dated 24 June 2011; (vi) (in the case of each of TWUL and TWUF) their respective audited financial statements for the year ended 31 March 2010, the year ended 31 March 2011 and the year ended 31 March 2012 together in each case with the audit report thereon; and (vii) (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, their respective audited financial statements for the year ended 31 March 2011 and their respective audited financial statements for the year ended 31 March 2012 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. Where only certain parts of a document are incorporated by reference in this Prospectus, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in 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 Clearwater Court, Vastern Road, Reading, RG1 8DB .

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/exchange/prices-and-news/news/market-news/market-news-home.html>.

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.

The hyperlinks included in this Prospectus, or included in any documents incorporated by reference into the Prospectus, and the websites and their content are not incorporated into, and do not form part of, this Prospectus.

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 has historically been applied.

For the year ending 31 March 2012 onwards the Issuer is preparing its financial statements in accordance with IFRS.

The 31 March 2011 accounts of the Issuer incorporated by reference in this Prospectus were 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.

The 31 March 2012 accounts of the Issuer incorporated by reference in this Prospectus have been prepared in accordance with 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.

FINAL TERMS

In the following paragraphs, the expression “necessary information” means, in relation to any Class of Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Bonds. In relation to the different types of Bonds which may be issued under the Programme, the Issuer has endeavoured to include in this Prospectus all of the necessary information except for information relating to the Bonds which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Class of Bonds.

Any information relating to the Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Class of Bonds will be contained in the relevant Final Terms. Such information will be contained in the relevant Final Terms unless any such information constitutes a significant new factor relating to the information contained in this Prospectus in which case such information will be contained in a supplement to this Prospectus or, in connection with the admission of Bonds to the Official List and admitted to trading on the Market, supplementary listing particulars.

For a Class of Bonds which is the subject of Final Terms, those Final Terms will, for the purposes of that Class only, supplement this Prospectus and must be read in conjunction with this Prospectus. The terms and conditions applicable to any particular Class of Bonds which is the subject of Final Terms are the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Final Terms.

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, J.P. Morgan Securities Ltd., Lloyds TSB Bank plc, Macquarie Bank Limited, London Branch, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc, National Australia Bank Limited, RBC Europe Limited, Scotiabank Europe plc, Société Générale 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	Certain financial institutions from time to time which enter into Hedging Agreements with the TWU Financing Group as counterparties and which comply with certain criteria set out in the Hedging Policy set out in the Common Terms Agreement and described in Chapter 7 “ <i>Overview of the Financing Agreements</i> ”. The name and a brief description of each current Hedge Counterparty is set out in Chapter 11, “ <i>Description of the Hedge Counterparties</i> ”. The TWU Financing Group may enter into further Hedging Agreements from time to time which comply with the Hedging Policy.
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	Certain 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”).
EIB	European Investment Bank, acting through its office at 98-100 boulevard Konrad Adenauer, Luxembourg-Kirchberg, Grand Duchy of Luxembourg.
Finance Lessors	Certain financial institutions which lease plant, machinery and equipment to TWUL under the terms of various 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	<p>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.</p> <p>The specific terms of each Tranche of Bonds are and will be set out in the applicable Final Terms.</p>
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	<p>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”.</p> <p>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.</p>

	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 (<i>European Economic and Monetary Union</i>), 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: <ul style="list-style-type: none"> (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.

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 be €100,000 (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.

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 as amended or supplemented from time to time (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 as amended, supplemented or restated from time to time (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 as amended, supplemented or restated from time to time (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 Obligor (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 Finance Lessors, the Hedge Counterparties, the EIB, the Credit Facility Providers, the DSR Liquidity Facility Providers and the O&M Reserve Facility Providers constitute Authorised Credit Providers. See Chapter 7 “Overview of the Financing Agreements”.

Credit Facility

The Issuer entered into a facility agreement on 2 September 2011 with the Credit Facility Providers as amended, restated and supplemented or replaced from time to time.

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

Listing

TWUL's unfunded operating and maintenance expenses.

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 may be affected by 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 and is registered under the CRA Regulation.

The European Securities and Market Association ("ESMA") is obliged to maintain on its website a list of credit rating agencies registered in accordance with the CRA Regulation. This list must be updated within five working days of ESMA's adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation.

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 in issue are, and new Bonds will be and all non-contractual obligations arising from or in connection with any such Bonds are, or will be (as the case may 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”.

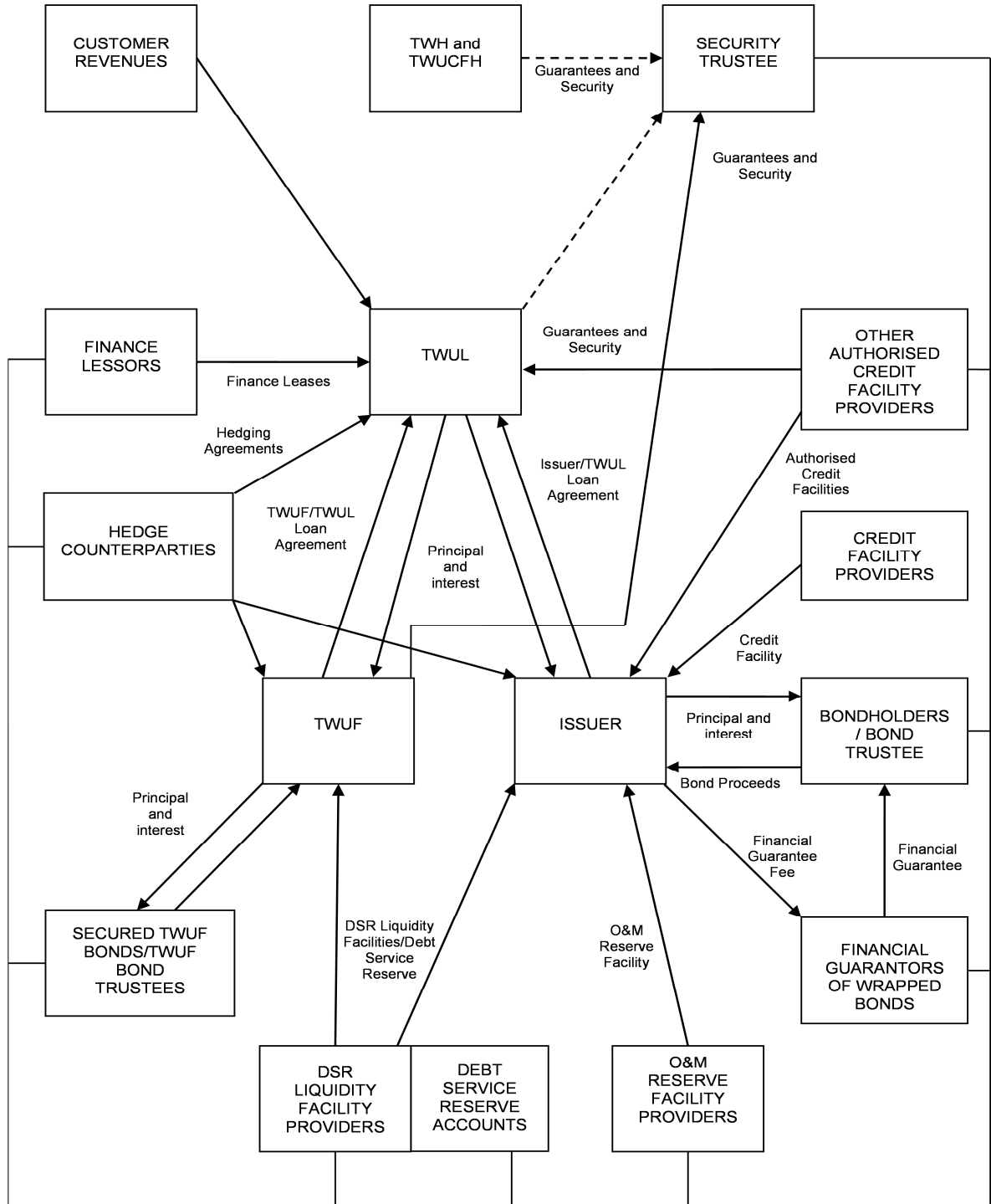
Investor Information

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 calculations of the Class A Average Adjusted ICR and Senior Average Adjusted ICR for the 12 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

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, TWUF and, for certain indebtedness, TWUL 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 Finance Lessors provide financing of equipment to TWUL.
- 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. 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.

Legal, Regulatory and Competition Considerations

Regulated Business

The water industry is subject to extensive legal and regulatory controls with which TWUL must comply. The application of the laws, regulations and standards and the policies published by Ofwat, Defra, DWI, Natural England and other regulators, could have a material adverse impact on the business, financial condition or operational performance of TWUL.

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

Licence Modifications

As further described in Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*”, TWUL operates in accordance with its Licence Conditions. Under the WIA, Licence Conditions may be modified by Ofwat with TWUL’s consent or without TWUL’s consent where, following a reference to the Competition Commission, 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. Any modification to the Licence Conditions could have a material adverse impact on the business, financial condition or operational performance of TWUL.

Proposed changes to future price controls and Ofwat's Section 13 Notice

In November 2011, Ofwat published “*Future price limits – a consultation on the framework*”, (“Future Price Limits”) a consultation on how Ofwat might set price limits that come into effect from 2015. Following the consultation, in May 2012 Ofwat then set out its high-level framework for setting price limits from 2015 and beyond in the “*Future Price Limits – statement of principles*” (“FPL Principles”). As described in more detail in Chapter 6, “*Regulation of the Water and Wastewater Industry in England and Wales*”, the proposals set out include moves to:

- split price controls for retail and wholesale, rather than using a single price control;
- regulating outcomes with appropriate measures of success and incentives, rather than outputs; and
- using a total expenditure (“totex”) approach for cost assessment, cost recovery and incentives, rather than maintaining the current distinction between capex and opex.

The impacts of these changes are uncertain as Ofwat has not yet defined its regulatory policies and methodology. The proposed changes could have a material impact on TWUL’s business and cash flows.

Following the publication of Future Price Limits, in December 2011, Ofwat issued a Section 13 Notice (as described in more detail in Chapter 6, “*Regulation of the Water and Wastewater Industry in England and Wales*”), which sets out proposed modifications to each water company’s licence. The modification would give Ofwat the flexibility to determine the number, form, nature and length of controls at each price determination, including removing the RPI + K adjustment formula from the Licence Conditions (see “*TWUL Revenue Model and Cost Considerations*” below).

TWUL responded to Ofwat’s Section 13 Notice on 29 February 2012 where it provided a reasoned objection to the proposed Licence Conditions’ modifications; in an Information Notice dated April 2012 Ofwat acknowledged the responses from water companies and announced that it was extending its engagement process with companies and other stakeholders beyond the original proposed deadline of 1 May 2012.

The modifications to TWUL’s Licence together with the proposed changes to the current price control regime (as set out in the FPL Principles) could reduce the certainty and predictability of TWUL’s cash flows and could impact on TWUL’s ability to maintain its investment grade rating (a risk which TWUL noted in its response to the Section 13 Notice). 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. Furthermore, uncertainty around such proposed changes may, of itself, impact on investor and rating agency confidence, which could lead to rating downgrades and/or make it more difficult for TWUL to raise finance in the future.

Breach of Licence Conditions

As described in Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*” under “*Enforcement Powers*”, a failure by TWUL to comply with its Licence Conditions or certain statutory duties may lead to the making of an Enforcement Order or the imposition of financial penalties of up to 10 per cent. of TWUL’s turnover, which could have a material 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.

Ofwat sewer flooding reporting investigation

Ofwat raised concerns about data, relating to sewer flooding outputs, reported to it in connection with information contained in the June Return in June 2010. Ofwat issued a notice under Section 203 of the WIA on 9 June 2011 to formally request additional information.

Following a number of responses from TWUL, in May 2012, Ofwat notified TWUL that it had formally transferred the case to an internal Ofwat casework team through its gateway process to continue with the investigation. Ofwat has indicated that this formal transfer does not prejudice the outcome of the investigation and is a procedural step. Ofwat has further indicated that it is unlikely to conclude its investigations until at least the third quarter of 2012.

If Ofwat concludes that TWUL has mis-reported its sewer flooding outputs, it may seek to impose sanctions including financial penalties of up to 10 per cent. of company turnover attributable to regulated sewerage services or to make a shortfall adjustment at Price Review 2014 for sewer flooding outputs which Ofwat determines have not been achieved during the AMP4 period.

If a financial penalty is imposed this could adversely affect TWUL's cashflows which could impact on the Issuer's ability to make payments under the Bonds.

Termination of the Licence

As described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Termination of a Licence*", there are certain circumstances under which TWUL could cease to hold its Licence for all or part of its region. 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.

Under Section 9(4) of the WIA, 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.

Competition in the water industry

Ofwat has 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 July 2009, 14 of a total of 38 inset appointments supplying up to 17,000 properties have been granted within TWUL's region. Further inset appointments may be made in the future.

WSL regime and the Water Supply (Amendment to the Threshold Requirement) Regulations 2011

As further described in Chapter 6 (*Regulation of the water and wastewater industry in England and Wales*), the Water Supply (Amendment to the Threshold Requirement) Regulation 2011 (which came into force on 15 December 2011) reduced the non-household consumer threshold in relation to the water supply licensing regime from 50 Megalitres per annum to 5 Megalitres per annum. This change in threshold represents an increase in the size of the number of TWUL's customers who are now able to choose their water supplier from approximately 350 to 5000. The Government's Water White Paper, issued in December 2011 (and described further in Chapter 6, "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Regulatory Developments*") contained proposals to reduce the threshold level further to 0 Megalitres for non-household consumers.

The ability of these customers to obtain their water supply from a different supplier could adversely affect TWUL's turnover, which could adversely affect TWUL's business, operational performance, profitability or financial condition.

TWUL Revenue and Cost Considerations

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. 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.

Periodic Review

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 its Periodic Review, and Ofwat's assessment of delivery against those factors. A detailed description of the process under which Ofwat determines price limits for TWUL is described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Economic Regulation*".

Although Ofwat has a duty to exercise and perform its powers and duties in the manner it considers is best calculated to, amongst other primary duties, secure that companies are able (in particular, by securing reasonable returns as capital) to finance the proper carrying out of their functions, an adverse price determination (which would adversely affect turnover, profitability and cashflow) may occur as a result of a number of factors. These include 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 materially adversely affect financial performance.

An additional consideration is the current uncertainty around how Ofwat will apply some of the regulatory mechanisms it introduced for the AMP5 period. In particular, there remains uncertainty around how Ofwat will calculate the rewards or penalties from its Capital Expenditure Incentive Scheme at the end of AMP5 and therefore uncertainty around the impact of this mechanism on business cash flows.

Interim Determinations

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, the circumstances contemplated by the Shipwreck Clause (also known as the substantial effects clause) in the Licence.

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 Shipwreck Clause is made, that such adjustment or determination will provide adequate revenue compensation to TWUL, therefore, TWUL would have to bear any additional cost from its own resources.

Where funding is considered during an interim determination (for example in relation to the adoption of private sewers and the Thames Tunnel), Ofwat may determine that the appropriate and reasonable level of 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 bear this additional element from its own resources. In the case of the adoption of private sewers and the Thames Tunnel, expenditure has already been and continues to be incurred; if Ofwat does not allow a high enough level of funding, TWUL will have to fund the additional element of expenditure incurred on these projects from its own resources.

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. 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.

If TWUL is unable to deliver its capital investment programme at expected expenditure levels, is unable to secure the expected level of efficiency savings on its capital investment programme, 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.

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 was indexed using the Construction Output Prices Index ("COPI"). There is 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).

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 provisions of the WIA, which prohibits the disconnection for non-payment of a water supply for domestic use in any premises and the limiting of a supply with the intention of enforcing payment for domestic use in any premises; although, allowance is made by Ofwat in the price limits at each Periodic Review for a proportion of debt deemed to be irrecoverable. 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) the increase was due to a deterioration in the economy, and (b) TWUL has put in place appropriate procedures and measures to mitigate the increase in debt levels. TWUL may therefore suffer losses from its inability to recover its debts fully, which could adversely affect TWUL's business, operational performance, profitability or financial condition. Ofwat recently launched a consultation on tackling bad debt in the water industry (see Chapter 5, "*Description of the TWU Financing Group*" under "*Bad Debts*"). The Revenue Correction Mechanism (as described more fully in Chapter 6, "*Regulation of the Water and Wastewater Industry in England and Wales*") also provides companies with the ability to recover uncollected current revenue during the next AMP Period.

Operational Risks

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 accurately to forecast the occurrence and effects of sewer flooding, forward planning and the making of full and reliable provision for the effects, or the alleviation of the risk, of sewer flooding is not practical. 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, operational performance, profitability or financial condition.

Water shortages

On 5 April 2012, TWUL issued a temporary use ban notice (pursuant to section 76 of the WIA), previously known as a "hosepipe ban", following below average rainfall levels across the Region for the last 2 years. On 13 June 2012 TWUL announced that the temporary use ban would be lifted with effect from 14 June 2012 following the exceptional levels of rainfall over the previous two months.

In the event of water shortages, additional costs may be incurred by TWUL in order to provide emergency reinforcement to supplies which may adversely affect its business, operational performance, profitability or financial condition.

In addition, restrictions on the use or supply of water (including temporary use ban bans and drought orders) may adversely affect TWUL's turnover and may, in extreme circumstances, require an emergency drought order to be put in place which allow a Regulated Company to set up standpipes or water tanks to provide water during rota cuts (such circumstances have never been experienced by TWUL). This could lead to significant compensation becoming due to customers because of interruptions to supply, which could adversely affect TWUL's business, operational performance, profitability or financial condition.

Potential water shortages may be exacerbated by reductions imposed by the EA in the volume of water licensed to be abstracted 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, operational performance, profitability or financial condition.

Service interruptions due to key site or installation disruption

Unexpected failure of or disruption (including criminal acts or a major health and safety incident) at a key site or installation (including a reservoir or treatment works) could cause a 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, operational performance, profitability or financial condition.

Contamination of water supplies

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 TWUL is not aware of the contamination, the analysis of the contamination takes several days to complete or TWUL is unable to substitute water supply from an uncontaminated water source, or to treat 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, operational performance, profitability or financial condition. However, TWUL may defend itself from prosecutions and fines if either a) it demonstrates it has no grounds to suspect the water was intended for human consumption or b) it can demonstrate it had taken all reasonable steps and exercised necessary due diligence.

Such operational costs 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, operational performance, 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 above.

Risk arising from the Thames Tunnel

The Thames Tunnel Project poses significant financial and operational risks to TWUL together with significant and unquantifiable exposure to third party liabilities. Accordingly, TWUL is currently in advanced discussions with Defra, Ofwat, Infrastructure UK and Her Majesty's Treasury as to the most appropriate financing and delivery (including risk insulation) model for the Thames Tunnel Project.

Nevertheless, there is a risk that TWUL does not reach a satisfactory conclusion with Defra and Ofwat as to an acceptable delivery and risk insulation model for the Thames Tunnel Project. TWUL may, therefore, 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 and may have to make capital investment during the AMP5 Period in addition to the amount funded in the 2009 Final Determination. In this event, or analogous events, there is a significant risk that TWUL's financial condition and its ability to carry out and finance its regulated business will be materially adversely affected and the rating of TWUL and of the Bonds may be downgraded accordingly.

These risks are mitigated by the consideration that Ofwat has a primary duty under the WIA to exercise and perform its duties under the WIA in the manner they consider best calculated to, amongst other primary duties, secure that Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their functions.

TWUL has agreed recognised mechanisms with Ofwat to fund additional AMP5 expenditure not included in the 2009 Final Determination.

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 Shipwreck 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*”).

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 (or create a charge or mortgage over) Protected Land (as explained in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Protected Land*", below). 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 (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 its 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

As set out in Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*” under “*Special Administration Orders*”, 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 such 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 or a creditor has petitioned for the winding-up of TWUL), this could lead to the appointment of a Special Administrator. 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. 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 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 an administration for a company which is not a Regulated Company.

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, which 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). 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.

Environmental

TWUL’s water supply and sewerage operations are subject to a significant number of EU and UK laws and regulations relating to the protection of the environment and human health.

TWUL and other Regulated Companies can incur significant costs in order to comply with such requirements imposed under existing or future environmental laws and regulations. Where such costs were not 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.

The environmental legislation governing TWUL’s business means that TWUL is at risk of enforcement action, prosecution, substantial fines to third parties, requirements to deal with the effects of contamination and/or upgrade plant and equipment, in the event of incidents such as the escape of sewage

or a breach of water quality standards. This could materially and adversely affect TWUL's reputation and/or financial position.

Localism Act

The ECJ is currently hearing proceedings against the UK alleging that the Government has failed to fully implement the UWWTD correctly with respect to overflows from the sewer network in London. This could result in infraction fines being imposed on the Government.

As described further in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Localism Act and the UWWTD*", if section 48 of the Localism Act is enacted, there remains a risk that fines may be passed down to TWUL as a public authority either following an adverse ECJ decision, or otherwise.

Any such fines could have a material impact on TWUL's financial position which could in turn impact on the ability of TWUL, the Issuer or the other Obligor to pay amounts due and owing in respect of the Bonds.

Financing Considerations

High Leverage

TWUL's indebtedness is substantial in relation to its RCV. As at 31 March 2012, Senior RAR was 78.3 per cent. TWUL is entitled under the Finance Documents to increase its leverage. However, under the Finance Documents a Senior RAR of greater than 85 per cent. 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, regulatory and other factors, including fluctuations in interest rates and general economic conditions in the United Kingdom, beyond its control. 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 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.

Financing Structure 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 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.

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.

The O&M Reserve Facilities

The O&M Reserve Facilities and any amounts credited to the O&M Reserve Accounts are intended to cover certain shortfalls in the ability of TWUL to meet its operating and capital maintenance expenditure requirements. However, there are no assurances that any such shortfalls will be met in whole or in part by amounts standing to the credit of the O&M Reserve Accounts or by the O&M Liquidity Facilities.

Bond Considerations

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.

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 the minimum Specified Denomination

In relation to any issue of Bonds which have a denomination consisting of the minimum Specified Denomination (set out in the applicable Final terms) plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of the minimum Specified Denomination. 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 and is registered under the CRA Regulation.

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 (subject to certain considerations).

(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.

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 "*Overview of the Financing Agreements*". 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

EU Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive"), requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of), an individual or certain other persons in that Member State, except that Austria and Luxembourg instead apply a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. A number of third countries (including Switzerland) and certain dependent or associated territories of certain Member States have adopted similar measures to the EU Savings Directive.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

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 Obligor 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

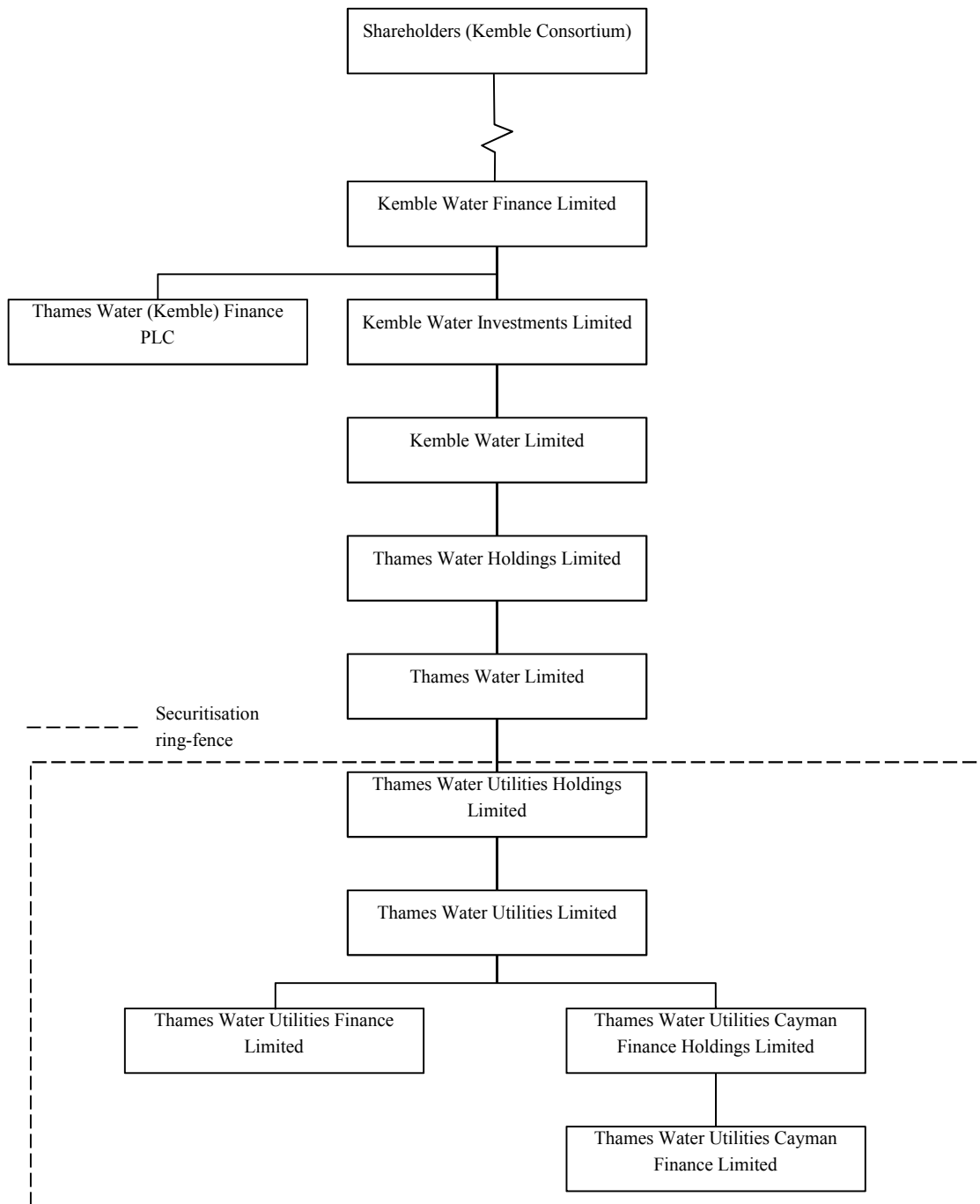
Certain provisions of the Transaction Documents contain certain conditions and/or triggers which are based upon an assessment of the financial condition of the TWU Financing Group calculated by reference to the financial statements produced in respect of the companies in the TWU Financing Group. These 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

TWU Financing Group



To reduce TWUL’s exposure to credit and event risk of other Thames Water Group companies, in 2007 the Thames Water Group created a new “ring-fenced” financing group (being the “TWU Financing Group”) which, so far as practicable, is financially and operationally separate from the rest of the Thames Water Group. The diagram above illustrates the structure of the TWU Financing Group and its ownership structure.

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 and with an RCV of £10,005 million as of 31 March 2012. It forms the principal business of the Thames Water Group.

Key Financial Data¹

	2011/2012	2010/2011	2009/2010
Turnover (regulated business)	£1,670.9m	£1,600m	£1,593m
- Water	£851m	£837m	£810m
- Sewerage	£820m	£763m	£783m
Operating expenditure	£665.8m	£627m	£605m
Operating Profit ²	£634.4m	£598m	£690m
Capital Investment	£1,056.1m	£1,003m	£763m
Employees	4,551	4,886	5,095

Currently, no single customer accounts for revenues of more than £10 million per annum.

Capital 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. As outlined in the 2009 Final Determination this investment has and will continue during the AMP5 Period.

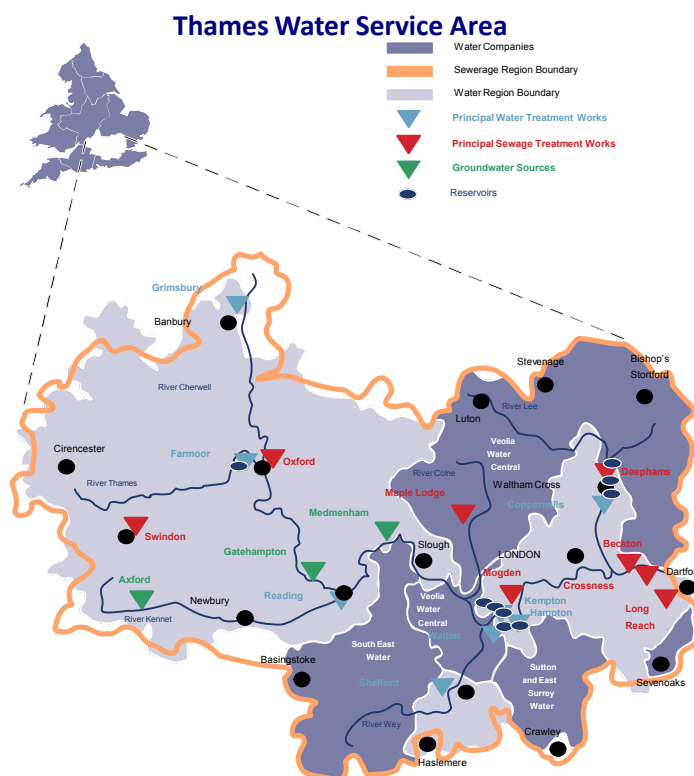
¹ Source: TWUL March 2012 Annual Report and Financial Statements.

² Includes exceptional item of £40 million relating to pension scheme changes.

Area of Appointment

Under the WIA, TWUL has been appointed by an Instrument of Appointment dated August 1989 (with effect from 1 September 1989) as a “Regulated Company” and as the water, and sewerage, undertaker for the geographic area identified in the map below as the Water Region Boundary (the “Water Region”) and the area outlined by the Sewerage Region Boundary (the “Sewerage Region” and, together with the Water Region, the “Region”), subject in each case to the inset appointments granted by Ofwat.

The Region occupies approximately 13,300 square kilometres and encompasses more than 9 per cent. of the area of England and Wales. The Region has an estimated population of approximately 14 million people, which represents more than a quarter of the total population of England and Wales. Where TWUL does not serve a site, or where a site is occupied by a customer using at least 50 Megalitres 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.

Economic Regulation

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 sets 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 a five-year business plan 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 current asset management period ("AMP5") relates to the period from 1 April 2010 to 31 March 2015 (the "AMP5 Period").

On 26 November 2009, Ofwat released its Final Determination of price limits for AMP5 (the "2009 Final Determination"), which 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 per cent. (compared to an industry average of 0.5 per cent.), a capital expenditure programme for TWUL of £4.913 billion (post efficiency and post CIS) 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. Therefore, in practice unexpected costs or savings are generally only reflected in the prices set for the next AMP Period.

Ofwat has recently consulted on a proposed framework for setting price limits for the AMP6 Period and beyond (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Future Price Limits Review*").

Strategy

The strategic focus of TWUL is 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 six years in succession; reduce the number of properties at risk of low pressure to its lowest ever level; achieve over 99 per cent. compliance across all of the company's sewage treatment works for several years in succession; and achieve industry leading drinking 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 and 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 to allow it to assess, respond and capitalise on new opportunities as regulatory/market reform starts to be implemented.

TWUL continues its successful track record of divestment of land and property assets released from the regulated asset base. In addition, it will seek to make best use of the asset base to deliver further efficiencies including a focus on the production of renewable electricity to reduce energy costs and support the UK's move towards a low-carbon economy.

TWUL has a 25 year strategy plan in place which was published in December 2007. At the date of this Prospectus, this document is being updated and is expected to be issued to various stakeholders over the

next year in preparation for the 2014 Price Determination. 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, management to continue to focus on health and safety, establishing itself as an employer of choice.
- (b) Sustainability – on an operating and financial level, 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; and also on an environmental level, checking all projects for environmental impact, implementing a biodiversity action plan and setting ambitious business wide target on climate change and carbon management
- (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 with an aim to ensure that customers would choose TWUL, if they had a choice.
- (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.

Water Supply – Base Statistics 2011-12³

Description

Area of supply	8,000km ²
Population served	9.0 m
Properties served	3.6 m
– households	93.5%
– non-households	6.5%
Length of mains	31,167 km
Number of water treatment works (in operation)	88
Number of main reservoirs	
Number of service reservoirs (in operation)	235
Raw water reservoirs	30
Average daily supply	2551 MI/d
– from groundwater	24%
– from surface water	76%
Other Assets	
Drinking water plants	88
Water towers	32
Treated water pumping stations	288

Water Resources: Water resources fall into two basic categories: surface water (primarily sourced from rivers) and groundwater (principally from aquifers). Abstractions from these sources are made pursuant to abstraction licences issued by the Environment Agency.

Treatment Infrastructures: Abstracted water is treated at water treatment works prior to distribution to customers through water mains and service pipes. Water from some groundwater sources can be of such a quality that only disinfection treatment is necessary, whilst other sources require additional treatment to meet TWUL's water quality standards. For all abstractions, water quality monitoring ensures that any necessary corrective action can be taken as and when required.

In 2010, TWUL commissioned a desalination plant, the Thames Gateway Water Treatment Works, which is capable of producing a maximum of around 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.

Distribution: TWUL distributes treated water through its trunk and distribution mains. In 1994, TWUL opened an underground tunnel which acts as a "ring of water" enabling water to flow around London (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

³ Source: TWUL internal reporting.

extension programme which 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 stress⁴. TWUL is required to outline its long-term supply and demand strategy in a water resources management plan (the "Water Resources Management Plan"). Every five years water companies in England and Wales are required to produce a Water Resources Management Plan. The plan sets out how water companies aim to meet predicted demand for water over the next 25 years, ensuring enough water is available to meet customers' needs. From June to August 2010 a public inquiry was held to consider TWUL's draft Water Resources Management Plan, which covered the period 2010-2035. The draft Water Resources Management Plan was amended in line with the Inspector's recommendations and a further public consultation was held on TWUL's Water Resources Management Plan from December 2011 to January 2012 and in March 2012 the amended Water Resources Management Plan was submitted to the Secretary of State for Environment, Food and Rural Affairs for approval. At this time TWUL is waiting for a response. TWUL is also developing a new Water Resources Management Plan for the period 2015-2040 and is working closely with regulators and stakeholders in the development of this plan.

Ofwat Water Supply Performance Measures

Performance Summary

	Performance 2011/2012	Performance 2010/2011	Target 2011/12	Target Achieved?
Drinking water quality compliance ⁵⁶	99.98%	99.97%	99.98%	✓
Security of supply (annual average) ⁷	100	100	100	✓
Leakage (Ml/d)	637	665	673	✓
Mains bursts (per 1,000km)	239	299	354	✓
Properties receiving low pressure (nr)	3	14	34	✓
Properties experiencing unplanned supply interruptions ⁸	0.33	0.58	0.35	✓
Serviceability assessment (infrastructure and	Stable	Stable serviceability	Stable	✓

⁴ Water resources in England and Wales – current state and future pressures, Environment Agency, December 2008.

⁵ DWI mean zonal compliance measures.

⁶ Performance relates to calendar year 2011.

⁷ The Security of Supply Index assesses a water company's ability to supply water to customers in drier years.

⁸ Index of number of properties affected by unplanned or unwarned supply interruptions of greater than six hours (rate per 1,000 properties connected to the water network).

	Performance 2011/2012	Performance 2010/2011	Target 2011/12	Target Achieved?
non-infrastructure)				

Drinking Water Quality: TWUL has maintained a high level of compliance with mandatory EU and UK drinking water quality standards. This performance has been achieved as a result of a combination of ongoing investment in water treatment processes, refurbishment of the water distribution system and improvement to operational practices and procedures.

Leakage Control and Security of Supply: Reducing leakage has been, and remains, one of TWUL's main operational priorities. At the start of AMP4, TWUL embarked on a major investment programme to replace large sections of mains network. This year (2011/12) TWUL achieved its leakage target for a sixth consecutive year and this brings total leakage reductions achieved since 2003/04 to over 300 Ml/d, with leakage at its lowest since privatisation in 1989.

Mains bursts: 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 water pressure profile; and (ii) as a result of the delivery of new infrastructure as part of the Victorian mains replacement ("VMR") Programme.

Interruptions to supply: To mitigate further interruptions to supply for greater than 12 hours, a new regulatory standard has been written, which focuses on improving root cause analysis and identifying improvements. Improvements already identified include better risk identification through a permit to work system and a more robust escalation process. This has been supplemented by meetings with all members of field staff instructing them to focus on best practice and by an enhanced notification process to warn customers of potential 12 hour outages.

Network Improvement Project

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

- (a) dividing large water supply areas (or 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.

Waste Water – Base Statistics 2011-12⁹

Population equivalent served*	14.3m
Properties served	5.5m
– households	95%
– non-households	5%
Length of sewer	69,000 km of sewers and 40,000 km of private sewers adopted Oct 2011
Number of wastewater treatment works	350
Volume of wastewater treated daily	2,872 Ml/d
New sewerage connections	31,470
Number of sludge treatment works	34
Number of pumping stations	2,530

** The capacity of a sewage treatment works is measured in terms of the amount of organic material that can be treated. It is assumed that one person is equivalent to a load of 60g of biochemical oxygen demand. Effluent may also include industrial wastewater treated at works. Hence, the population equivalent served by a works can greatly exceed the population served in the catchment, especially if a large volume of industrial effluent is also treated.*

Approximately 30 per cent. of TWUL's pre-October 2011 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 gravity sewers with particular emphasis being placed on those sewers where the consequences of failure are believed to be the most significant. The previously private sewers and lateral drains that transferred on 1 October 2011 are nearly all of low strategic significance and will initially be classified and managed as non-critical.

⁹ Source: TWUL internal reporting.

Ofwat Sewerage Performance Measures

There are a number of measures used by Ofwat to assess the serviceability of the sewerage assets (both infrastructure and non-infrastructure) and to ensure that the sewerage undertaker is delivering the appropriate levels of capital expenditure and operational resources.

Performance Summary¹⁰

	Performance 2011/2012	Performance 2010/2011	Target 2011/12	Target Achieved?
Sewer collapses per 1,000 kilometres	4.9	3.9	6.6	✓
Sewer flooding due to overloaded sewers (no. of properties)	40	77	290	✓
Sewer flooding due to other causes ¹¹ (no. of properties)	964	843	725	×
Properties alleviated from external and internal sewer flooding	84	182	596	Ofwat's target is to achieve 2,488 by 2015
Sewer Blockages	71,050 (including 14,946 relating to private sewers)	54,373	50,628	Ofwat's target to reduce to 43,000 by 2015
Equipment Failures ¹²	5,075	7,103	6,931	✓
Serious or significant pollution incidents ¹³	20	11	0	×
Satisfactory disposal of sewage sludge	100%	100%	100%	✓
Sewage treatment works compliance ¹⁴	99.71%	100%	100%	✓
"Serviceability" assessment (infrastructure and non-infrastructure)	Stable	Stable	Stable	✓

¹⁰ Source: TWUL internal reporting.

¹¹ For example, sewer blockage, sewer collapse or pumping station failure.

¹² Records the numbers of significant equipment defects on the sewerage network.

¹³ EA Cat 1 or Cat 2 pollution incidents.

¹⁴ Reflecting discharges failing numeric consent for 2011 calendar year.

Sewer flooding due to overloaded sewers:

TWUL is required to maintain a register of properties that flood internally due to lack of capacity more frequently than once every 10 years. Ofwat has set TWUL a five year target to reduce the size of this “high risk” register.

In its October 2011 report, Ofwat made reference to concerns it had earlier raised with TWUL regarding its reporting of properties at risk of flooding on the sewer flooding register. Ofwat is currently evaluating whether to take action relating to this issue (see further Chapter 4 “Risk Factors” above and Chapter 6 “Regulation of the Water and Wastewater Industry in England and Wales” below).

Sewer flooding due to other causes:

Reporting of sewer blockages has increased, some of which has led to flooding instances. Some of the increase can be attributed to the transfer of private sewers, which took place in 2011.

Effluent Compliance:

These measures are based around effluent compliance with both the Urban Waste Water Treatment Directive (the “UWWTD”) and the ‘sanitary’ parameters in WRA consents (now permits). The first four measures which Ofwat uses to measure TWUL’s performance in this area cover compliance with both of these pieces of legislation as (i) the number of failing works against an absolute value and (ii) a percentage of the population served by those works. In the 2011 calendar year, TWUL reported one works (Aldershot Town) failing its WRA consent. Note that ‘effluent compliance’ may not be reflective of pollution incidents attributed to the works, for instance, a poor quality discharge from Silchester STW in 2010 resulted in a successful prosecution by the Environment Agency in 2011.

Discharges of Untreated Sewage into the Tidal River Thames – London Tideway Improvements

Discharges of untreated sewage into the tidal River Thames currently occur from the Beckton and Crossness (amongst others) sewerage catchments because of the lack of capacity in London’s existing sewer network, which takes both foul sewage flows and surface run off due to rainfall through combined sewer overflows (“CSOs”) built into London’s sewerage system.

In response to the recommendations of the report of the independently-chaired Thames Tideway Strategic Study in 2005, following Government instruction, TWUL is addressing this issue through the development of the Lee Tunnel (the “Lee Tunnel”) and the Thames Tunnel (the “Thames Tunnel”, with the Thames Tunnel project being the “Thames Tunnel Project”), and associated sewage treatment works upgrades.

The Lee Tunnel and the Thames Tunnel are designed to substantially reduce the volume and frequency of untreated sewage discharged from London’s sewers into the River Thames, and its tributary, the River Lee when it rains.

Flows from both the Thames Tunnel and the Lee Tunnel are to be transferred to Beckton sewage treatment works (“Beckton STW”) in East London. The capacity of this site is currently being extended by 50 per cent. to accommodate the projected flows and allow full treatment of the sewage.

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.

The Lee Tunnel

Construction on the seven-kilometre Lee Tunnel, providing additional capacity between Beckton STW and the Abbey Mills pumping station in Stratford began in 2010. The tunnelling work commenced in February 2012 and is due to complete 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.

The Thames Tunnel

Currently in the planning phase, it is proposed that the Thames Tunnel broadly follows the path of the River Thames in order to intercept 34 of the most polluting CSOs as identified by the Environment Agency.

The Thames Tunnel's precise route has still to be determined. The first phase of public consultation was completed in January 2011, resulting in changes to the initial route and the second phase was completed on 10 February 2012. TWUL published a report on the feedback received during the second public consultation in May 2012 which is available at www.thamestunneconsultation.co.uk. The submission of a development consent order application is expected in January 2013.

The Thames Tunnel Project presents a considerable engineering and construction challenge due to its length, depth and route under the city of London. In respect of tunnelling works, construction problems may be exacerbated by the impact of an uncertain underground environment which can result in relatively small events having a disproportionate effect on timing and cost.

Risks to the Thames Tunnel Project 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, *force majeure* and the risk of catastrophic failure.

The estimated project cost of the Thames Tunnel at a P80 level (meaning that there is an 80 per cent. probability that the actual project costs will be less than this figure based on probability modelling of cost risks) is estimated by TWUL to be £4.1 billion (at 2011 prices, excluding inflation). Although the likely impact of financing the Thames Tunnel Project on customer bills has not been fixed, bills are likely to rise gradually. It is not known when the maximum impact on customer bills will be but the Government has published that it is estimated to be in the range of £70-80 per year at 2011 prices. The final impact will depend on, amongst other things, the nature and extent of any UK Government support.

Given the size and scale of the Thames Tunnel Project and the associated financing requirements and risks and liabilities involved in construction, TWUL is currently in discussions with Defra, Ofwat, Infrastructure UK and Her Majesty's Treasury as to the most appropriate financing and delivery models for the Thames Tunnel Project.

On 3 November 2011, Defra issued a written ministerial statement re-affirming its support for the Thames Tunnel Project and stating that the Government is willing in principle to provide contingent financial support for exceptional project risks where this offers best value for money for customers and taxpayers.

In respect of initial work on the Thames Tunnel Project, 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 and second phase of 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 however any other expenditure on preparatory work may not be funded by the 2009 Final Determination.

On 1 May 2012, the Water Industry (Financial Assistance) Act, which makes provision for the giving of Government financial assistance for the purpose of sewerage services in connection with the construction of, and the carrying out of works in respect of, water and sewage infrastructure such as the Thames Tunnel, received Royal Assent. The provisions of the Water Industry (Financial Assistance) Act come into force on 1 July 2012.

Ofwat has also, with the agreement of TWUL, changed Condition N of the Licence, with effect from 1 April 2011. The modification to Condition N introduces a new and separate requirement for TWUL to pay the costs that Ofwat incurs in relation to the Tideway Tunnel Project and related works. The amounts to be paid will be determined by Ofwat, after consulting TWUL. Ofwat has agreed with TWUL that TWUL will not be required to make payments totalling more than £10 million during the life of the Thames Tunnel Project unless an increased limit is agreed between the parties.

Transfer of Private Sewers

In October 2011, the Government proceeded with the transfer of private sewers and lateral drains to sewerage undertakers. For TWUL, this amounted to approximately 40,000km of additional sewerage network to maintain.

A further transfer comprising the sewers and lateral drains constructed between 1 July 2011 and the coming into force of compulsory future adoption arrangements under Section 42 of the Flood and Water Management Act 2010, will take place 6 months after that Section comes into force. This date and hence the quantity of further sewerage network transfer are currently unknown (although significantly less than that transferred on 1 October 2011).

Private sewage pumping stations and rising mains will be transferred by October 2016. Our strategy for managing the transfer is currently being developed and we may gradually take these over during the period up to the 2016 deadline. The number of pumping stations and the length of rising main are still not known, however initial indications are that around 5000 installations will be eligible for transfer under the regulations. Approximately 1000 sites have been identified to date and 500 visited with high level data collected.

The costs associated with the transfer and ongoing operation and maintenance of the transferred private sewers and lateral drains were not taken into account in the 2009 Final Determination, but Ofwat confirmed that implementation of the transfer would qualify as a relevant change of circumstance, which means that TWUL could seek recognition of significant financial costs arising from the transfer using the interim determination mechanism.

The increased operational costs associated are expected to be in the region of £15-35 million per annum and the additional capital expenditure costs are expected to be approximately £18-24 million per annum for the next three years including the necessary expenditure to bring transferring private pumping stations up to a safe and serviceable condition.

Despite the possibility of TWUL being able to recover its costs by seeking an IDOK, a risk remains that TWUL may not be fully compensated for the additional costs it incurs. All additional costs incurred so far have been below those previously forecast but increases are anticipated as public awareness of the new arrangements improves.

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

Wastewater 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 per cent. compliant with its discharge consents under the Environment Agency's Look up Table. The Look up Table sets out the number of permitted failures against the number of tests undertaken at any site.

Service Incentive Mechanism

In April 2010, Ofwat introduced a new Service Incentive Mechanism ("SIM") which replaced the previous Overall Performance Assessment or OPA. SIM comprises two components – a quantitative score that measures the number of complaints and unwanted telephone contacts that the company receives, and a qualitative score that measures, using Ofwat's independent research, how satisfied customers are with the quality of service they receive. Quantitative and qualitative scores are weighted 50:50 to produce the combined SIM consumer experience measure. The combined score is used to compare company performance from 2011/12 onwards and will be used by Ofwat to calculate incentive and penalties at the next price review.

Service Incentive Mechanism ("SIM") - 2011-12 performance

For 2011/12 the combined SIM score for TWUL was 62.61 out of 100. This compares to the previous year's score of 65 (2010/11 was a test year for SIM). The drop in performance is partially attributed to an increase in customer complaints in the year. Action has been taken to analyse and address the cause of these complaints. At the date of this Prospectus, TWUL's comparative ranking for 2011/12 has not been published.

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 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.

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 2011/12 billing period was approximately £339 for the year.

Metering Customers

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.

32.7 per cent. of TWUL's customers within its water supply zone, and 34.7 per cent. of TWUL's customers within its sewerage region, are metered.

Bad Debts

Under the WIA, regulated water and sewerage companies were barred from disconnecting household customers from their water supply for failure to pay bills. Non-household customers, however, may be 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 debtors for households and non-households, as a percentage of turnover in 2011/12 is 22.2 per cent. Whilst cash collection has improved in 2011/12, the debt that remains uncollected has deteriorated, possibly driven by the current economic climate. In a period of low income growth (lower than RPI), the increasing of annual bills by RPI plus K may result in more debt becoming uncollectible as more customers are unable to pay. The increase in bad debt driven by economic conditions is a notified item and so it may be possible, if the additional cost meets a materiality threshold, to recover some or all of this cost through the IDOK mechanism.

Once the TWUL Water Resources Management plan is approved, a selective metering programme will commence. 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.

In January 2012, the Government launched a consultation on the costs of bad debt to the industry ("*Tackling Bad Debt in the Water Industry*"). TWUL responded in April 2012 supporting a proposal of tackling bad debt by requiring an owner of a property to provide specified details of occupiers/tenants within a given timescale or to become jointly or severally liable for payment of charges. Currently, companies have no powers to require an occupier to provide their details in order to send them a bill. This situation is exacerbated in large urban areas, particularly London, where a significant proportion of the population is transient.

The consultation stated that the Secretary of State will come to a decision after considering all responses although no timetable has been set.

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 outsources services including payroll, IT support and procurement managed services and ensures appropriate risk assessment and management is applied and ensures transfer pricing rules are properly observed. The arrangements are typically a reflection of Good Industry Practice and TWUL's future strategy (see "*Strategy*" above).

Insurance and Risk Management

TWUL's 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 £151 million (£115 million net of deferred tax). The net deficit reflects a deficit in the TWPS of £185 million and a surplus in the TWMIPS of £34 million. As the two schemes are separate, a surplus in one scheme cannot be set off against a deficit in the other.

The last full actuarial valuation was undertaken as at 31 December 2010 using assumptions that are consistent with the requirements of FRS 17. During the completion of the December 2010 valuation, employer contributions were agreed with the Trustees of the TWPS in 2011 resulting in a deficit repayment programme equivalent to £16.5 million (adjusted for inflation) per annum over a 15 year period. 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.

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 DC 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.

In addition to being closed for new members on 1 April 2011, changes to the benefits payable under TWPS were agreed and implemented in 2011/12. These changes, which included moving the scheme to a career average basis for future benefits, resulted in a one-off gain of £40 million being reported in the 2011/12 financial year. This gain has been reported as an exceptional item.

For further 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 2012 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*".

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 measures under its Licence.

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 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 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.

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.

Ring-fencing provisions in TWUL's Licence

The ring-fencing provisions contained in TWUL's Licence (Licence Condition F) 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

As noted above, 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 TWUL.

(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 its 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 have regard to The UK Corporate Governance Code in operating the Appointed Business. Therefore, TWUL operates the Appointed Business as though it were substantially TWUL’s sole business and TWUL was a separate public limited company. TWUL should have particular regard to:

- (i) the composition of the Board such that the Directors, acting as such, act independently of the parent company or controlling shareholder and exclusively in the interests of TWUL;
- (ii) ensuring that all Directors disclose to both TWUL and Ofwat any conflicts between their duties as Directors of TWUL and their other duties;
- (iii) where potential conflicts exist between the interests of TWUL as a water and sewerage undertaker and those of other Group Companies, TWUL and its Directors ensure that, in acting as Directors of TWUL, they have regard exclusively to the interests of TWUL as a water and sewage undertaker;
- (iv) ensuring no Director of TWUL should vote on any contract or arrangement or any other proposal in which he has an interest by virtue of other directorships. This arrangement should be reflected in the Articles of Association of TWUL;
- (v) ensuring TWUL informs Ofwat without delay when:
 - a. a new Director is appointed;
 - b. the resignation or removal of a Director takes effect;
 - c. any important change in the function or executive responsibilities of a Director occurs;

TWUL should notify Ofwat of the effective date of the change and, in the case of an appointment, whether the position is executive or non-executive and the nature and any specific function or responsibility;
- (vi) the dividend policy adopted by the Board as outlined in (d) above; and
- (vii) the UK Corporate Governance Code as may from time to time be incorporated into or approved for the purposes of the Listing Rules of the Financial Services Authority.

(g) Publishing of financial information

TWUL shall, at such times and in such ways as may from time to time be required by the Financial Services Authority, publish such information about its annual, interim and final results as is required to be announced by a company whose shares are for the time being listed on the London Stock Exchange.

- (h) Maintenance of a financial instrument listed on the London Stock Exchange

TWUL is required to maintain the listing of a financial instrument 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 required to use all reasonable endeavours to ensure that it (or any associated company as an issuer of corporate 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.

Additional restrictions in 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 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) 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 considers that such a provision has the benefit of transparency and of requiring immediate remedial action should the circumstances triggering it arise.

- (c) Ultimate Controller undertakings

Licence Condition P (as amended) 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 its obligations under the WIA or 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 shall be persons of standing with relevant experience and who shall collectively have connections with and knowledge of the areas within which TWUL holds the Appointment 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.

It has been agreed with Ofwat 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. On 30 May 2012, Macquarie European Infrastructure Fund and another Macquarie-managed fund (Macquarie Diversified Infrastructure Fund) announced an agreement to sell a combined 13 per cent. stake in Kemble Water Holdings Limited to the BT Pension Scheme. An alternative Ultimate Controller undertaking may be required by Ofwat as a result of the completion of such transaction.

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 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 – board compositions and activities

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) 20 3577 8800.

Auditors of TWUL

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

Board Composition 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 “*Ring-fencing and the TWU Financing Group*” above. Ofwat requires TWUL to have regard to The UK Corporate Governance Code. Therefore, TWUL has maintained adequate executive director representatives and has accepted the replacement of three Kemble Consortium-appointed non-executive directors with three executive directors, thus ensuring that the Board has executive representation. With effect from 1 April 2012, and following an internal reorganisation, Ofwat were advised that the number of executive directors would be reduced to two. Details of the two 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 UK Corporate Governance Code 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.

The Board currently consists of a non-executive Chairman, two executive directors and 12 further non-executive directors (not including the six 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.

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.

Directors of TWUL

Non-Executive Chairman

Sir Peter Mason KBE was appointed Chairman of TWUL in December 2006. He brings extensive experience in engineering 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 S.A. Spie S.A. 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 previously 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

Stuart Siddall was appointed Chief Financial Officer in September 2011. He has extensive experience in the construction, engineering and utilities sectors and was previously Chief Executive of the Association of Corporate Treasurers and CFO of Amec Plc, Balfour Beatty Limited and Manweb plc.

Non-executive Directors

Edward Beckley was appointed a non-executive director of TWUL in January 2009 having served as an alternate since March 2008. He is head of Macquarie Infrastructure and Real Assets business in Europe and the Middle East.

Christopher Deacon was appointed a non-executive director of TWUL in December 2006. He brings extensive experience as a banker and advisor in major infrastructure and project finance. Presently, he is an advisor to Ofgem on the offshore wind transmission programme and a member of the Investment Committee for the Dutch Infrastructure Fund. He is a non-executive director of various other companies and a Member of the Franco British Council.

Dipesh Shah OBE FRSA was appointed a non-executive director of TWUL in October 2007. He is a non-executive director on the Boards of JKC Oil & Gas Plc (where he is Chairman of the Remuneration Committee), The Crown Estate, EU Fund for Energy, Climate Change and Infrastructure (the Marguerite Fund) where he is Chairman of the Investment Committee, Trustee of the British Youth Opera, Governor of Merchant Taylors' School, 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.

Gordon Parsons was appointed a non-executive director of TWUL in June 2010. He is an executive director in the Macquarie Infrastructure and Real Assets division of Macquarie Group Limited and is responsible for the asset management of the UK managed assets.

Lincoln Webb was appointed a non-executive director of TWUL in November 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.

Simon Eaves was appointed a non-executive director of TWUL in January 2012. He is a Regional Head in the Infrastructure division of the Abu Dhabi Investment Authority (ADIA) and has over 20 years experience in the utilities sector around the world, having previously worked for a number of multinational companies, including Sumitomo Mitsui Banking Corporation, PricewaterhouseCoopers, International Power and the GCC Energy Fund. He has been responsible for completing several investments in the utilities sector and has actively managed those investments as a Director on the Companies' Boards and Management Committees.

Yaping Shi was appointed a non-executive director of TWUL in January 2012. She is a Managing Director in the Special Investment Department of China Investment Corporation ('CIC'), responsible for direct investment activities in infrastructure assets. She began her career in finance and investing in 1996 at Standard & Poor's in Hong Kong and has also worked in Abbey National Treasury Services as Vice President in Credit Research. Prior to joining CIC in 2009, she worked for Lehman Brothers / Nomura International (Hong Kong) focusing on equity and equity-linked investments in private and public companies across Asia Pacific. She graduated from Yale University with a Masters Degree in Economics and from the University of International Business & Economics (Beijing) with a Masters Degree in International Finance, and a Bachelors Degree in International Business Law and is a CFA Charterholder.

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 30 years financial, operational and international business development experience in the shipping and freight forwarding, natural gas transmission and distribution, water and railway industries. He is a former Chief Executive Officer of both Angel Trains Ltd and Metrogas S.A. (Argentina), former Chief Operating Officer and finance director of Transco plc and former finance director of Severn Trent Water Ltd.

Rhys Evenden (alternate to Christopher Deacon) was appointed an alternate director of TWUL in December 2011. He is the Principal of Global Infrastructure at QIC, with a sector focus in relation to water and infrastructure for natural resources. He has led various transactions in water, midstream energy infrastructure, diversified utilities and airport sectors on a global basis and was previously a director of Kelda Group and its regulated subsidiary Yorkshire Water.

Stan Kolenc (alternate director to Robert Verrion) was appointed an alternate director of TWUL in January 2011. He is a Director with the OPTrust Private Markets Group, with responsibility for their European and Asian infrastructure programme. 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.

Marcus Hill (alternate director to Simon Eaves) was appointed an alternate director in January 2012. He is a Fund Manager in the Infrastructure Division at the Abu Dhabi Investment Authority (ADIA) and since commencing in that role in 2008, he has worked on a number of significant investments in utilities and transport assets around the world. He previously worked in infrastructure investment at Colonial First State Global Asset Management and in the investment bank at JPMorgan, both in Sydney.

Fuxin Sheng (alternate director to Yaping Shi) was appointed an alternate director in February 2012. He is a Vice President of the infrastructure investment team of China Investment Corporation having been with CIC since February 2008. He holds an MA Accounting and Finance degree from Leeds University Business School and a Bachelor degree in Economics and Finance from the Central University of Finance and Economics.

Christy Pham (alternate director to Lincoln Webb) was appointed an alternate director in November 2011. She holds 10 years of experience in the financial services industry with a background in institutional equity research, investment banking, and most currently infrastructure investment management. She also holds investment and research experience in the Paper and Forest Products sector and is directly involved with bcIMC's investment in TimberWest Forest Corp. Her involvement with Thames Water and Aquarion Water has also provided her with a diverse perspective on the Water and Waste Water Utility Industry. In addition to in depth industry knowledge, she also has transactional equity underwriting experience more specifically, with diversified, mid-market Canadian income trust companies.

Kevin Roseke (alternate director to Dipesh Shah) was appointed an alternate director in January 2012. He is a Principal with AIMCo's infrastructure team and plays a leadership role in evaluating and managing investments on a global basis. His background includes transactions in utilities, transportation, telecom, midstream, and power assets. He has been with AIMCo and its predecessor since 2004. In his asset management capacity, he serves on a number of company boards. Board experience includes Thames Water, Broadcast Australia, Grupo Saesa and Autopista Central. He is a Charterholder of the CFA Institute, holds a Bachelor of Commerce with Distinction from the University of Alberta, and is a graduate of the Director Education Program developed by the Institute of Corporate Directors.

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 Wales & West Utilities Limited and chairman of their audit committees.

He is also non-executive chairman and a founder shareholder of PetroGranada Ltd, an oil exploration company and Hon. Treasurer of the charity Elizabeth Finn Care.

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 and Castle Trust. 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-government 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 Vice Chairman of the Body of European Regulators for Electronic Communications (BEREC), a Director of Donmar Warehouse and a Trustee of The Teaching Awards Trust.

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

Company Secretary of TWUL

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

Subsidiaries

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

The Issuer

Company Details

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) 20 3577 8800. The UK contact address for the Issuer is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB.

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

Auditors of the Issuer

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

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 Group Treasurer, 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. 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.

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*”.

TWUF

Company Details

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) 20 3577 8800.

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.

Auditors of TWUF

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

Directors 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.

Company Secretary of TWUF

The Company Secretary of TWUF is Joel Hanson.

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*”.

TWH

Company Details

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) 20 3577 8800.

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.

Auditors of TWH

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

Directors of TWH

The directors of TWH are Sir Peter Mason KBE, Edward Beckley, Christopher Deacon, Peter Dyer, Gordon Parsons, Dipesh Shah, Martin Stanley, Robert Verrion, Simon Eaves, Yaping Shi, Lincoln Webb, Rhys Evenden (as alternate to Christopher Deacon), Stan Kolenc (as alternate to Robert Verrion), Marcus Hill (as alternate to Simon Eaves), Fuxin Sheng (as alternate to Yaping Shi), Christy Pham (as alternate to Lincoln Webb), and Kevin Roseke (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.

Peter Dyer was appointed a director of TWH in June 2007. He was a director of 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 Ltd, he worked for Imperial Chemical Industries plc.

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

Company Secretary of TWH

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

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*”.

TWUCFH

Company Details

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) 20 3577 88000.

TWUCFH is a wholly-owned direct subsidiary of TWUL. Its authorised share capital is U.S.\$50,000 divided into 50,000 shares of a nominal or par value of U.S.\$1 each. On its date of incorporation, TWUCFH had an issued share capital of one share of a nominal or par value of U.S.\$1 and on 15 October 2007 it issued one additional share of a nominal or par value of U.S.\$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.

Auditors of TWUCFH

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

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.

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*”.

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 six holders of inset licenses, and seven water supply license holders, who have been appointed under the inset and water supply licensing regimes to supply certain specific 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 to Ofwat.

Ofwat is the economic regulator for water and sewerage and is 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, financial and performance 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 carries out technical audits of each water undertaker; this includes an assessment of the quality of water supplied, arrangements for sampling and analysis, and progress made in delivering schemes to improve water quality. The EA duties include the regulation of abstractions from, and discharges to, “controlled waters” (which include coastal waters, territorial waters extending three miles from shore, inland freshwaters and groundwater).

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) regulated by Natural England, Defra and the EA.

Ofwat and the Secretary of State

Each of the Secretary of State and Ofwat has 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) ensure that the functions of Regulated Companies are properly carried out throughout England and Wales;

- (c) ensure 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) ensure that the activities authorised by the licence of a licensed water supplier 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.

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. Ofwat is responsible for monitoring compliance with the Licence Conditions and, where necessary, enforcing compliance through procedures laid down in the WIA.

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 has 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 “*Competition in the Water Industry*” 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 makes 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.

Modification of a Licence

(a) Regulatory landscape

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 Conditions 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 it 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 Flood and Water Management Act 2010, the previous Government signalled its intention to bring forward new legislation for these provisions at a later date. The current Government has also indicated a commitment to this proposal in the Water White Paper, published in December 2011 (see "*Regulation Developments*" below).

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.

(b) *Proposed licence modifications*

In December 2011, Ofwat issued a notice to modify the conditions of appointment of water companies, pursuant to section 13 of the Water Industry Act 1991 (the "Section 13 Notice"). The Section 13 Notice states that Ofwat wants to change water companies' licences to make them more flexible in terms of the way price limits are set.

If Ofwat's proposed changes are made, Ofwat would be able to determine the number, form, nature and length of controls at each price determination. In particular, the price adjustment formula of RPI + K would be removed from a company's licence, although Ofwat has indicated that it will maintain RPI indexation for the wholesale price control.

The licence modifications have been proposed in the context of Ofwat's move to introduce changes to how it undertakes price controls and regulation of water companies more generally (see "*Proposed changes to Ofwat's approach to future price controls*" below), though the modifications do not (by

themselves) determine the price control regime for Price Review 2014 or other future price determinations.

The Section 13 Notice states that the “proposed modifications do not undermine our commitment to a stable, transparent regulatory regime”. On 23 January 2012, Ofwat wrote to Water UK, an organisation which represents, among others, all major UK water and wastewater companies and stated: “Price controls would only take effect after the full price review process, during which we will still be subject to our statutory duty to secure that efficient companies are able to finance their functions. Companies would retain their existing right to appeal our determination to the Competition Commission.”

The Section 13 Notice states that Ofwat proposes “to have this modification in place in time for us to consult in autumn 2012 on our proposals for the next price review period.”

The Section 13 Notice invited water companies to indicate their acceptance or otherwise of the proposed modifications by 29 February 2012.

TWUL responded to Ofwat’s Section 13 Notice on 29 February 2012 where it stated, amongst other things, that it has preliminary objections to the proposed modifications to its conditions of appointment. TWUL provided a reasoned objection stating that it accepts that revisions to its conditions of appointment may in due course be required, should the proposed reforms be justified, but consultation on the implementation of any such proposed licence modifications should take place either once Ofwat has defined the regulatory policies it proposes to adopt or as part of the draft or final determinations that will be published under the PR14 price control process.

Ofwat stated in the Section 13 Notice that “If companies do not agree with our proposed modifications, and in the absence of any alternative, we can use our powers under section 14 of the WIA91 to refer the matter to the Competition Commission”.

Ofwat initially indicated that it would decide whether or not to refer the proposed licence modifications to the Competition Commission for determination by 1 May 2012 in order to meet its internal timetable. However, in an Information Notice dated April 2012, Ofwat acknowledged the responses from water companies and confirmed that it was extending its engagement process with companies and other stakeholders beyond its previous 1 May deadline. This engagement process, which has included senior-level meetings between Ofwat and water companies, is ongoing.

Enforcement Powers

Where the Secretary of State (via the DWI) or Ofwat is 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 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. Ofwat is currently investigating certain information reported to it by TWUL in connection with TWUL's delivery of its AMP4 hydraulic flooding programme including specifically in relation to the use of hydraulic modelling to support the identification of properties for inclusion in its 2010 June Return. Ofwat issued a notice under Section 203 of the WIA on 9 June 2011 to formally request additional information (see further Chapter 4 "Risk Factors" above).

Special Administration Orders

(a) Circumstances

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.

(b) *Special Administration Petition Period*

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.

(c) *Special Administrator powers and the Transfer Scheme*

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 Shipwreck 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

(a) 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 (as explained in the section "*Protected Land*" above). Accordingly, its 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.

(b) *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.

(c) *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 its 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 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. The current framework (set out below) will continue to be enforced up until 31 March 2015. Ofwat recently consulted on a proposed framework for setting price limits after that date (see “*Future Price Limits Consultation*” below).

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 the 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 takes account of the assumed net capital expenditure in each year of a Periodic Review Period. For these purposes, Ofwat makes 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.

Capital Expenditure Incentive Scheme

Ofwat has introduced an 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 Ofwat’s expectations and the Regulated Company’s actual expenditure.

The CIS allows for symmetric treatment of capital expenditure over-spends and under-spends. 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.

Revenue Correction Mechanism

The primary purpose of the Revenue Correction Mechanism is to remove companies’ ability to over or under recover revenue relative to assumptions made at the price review. Actual turnover will be driven primarily by key physical factors such as metered volumes, metering programmes and new property growth. These will depend on external factors such as the weather, economic growth and customer behaviour. The Revenue Correction Mechanism makes an adjustment in the next AMP Period, based on actual turnover compared to the Final Determination turnover assumption (adjusted for inflation).

Under or over recovery of revenue is calculated for each year of the current AMP Period with the cumulative impact being adjusted in K over each year of the next AMP Period.

Bulk Supply Charges

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.

Periodic Reviews of K

K factors are currently determined at Periodic Reviews every five years. TWUL’s average K factor for the Periodic Review up to 31 March 2015 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

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:

- (i) increases in household bad debt and debt management costs resulting from worsening economic conditions in the company’s operating area;
- (ii) increases in the environmental improvement unit charge component of abstraction charges above RPI to cover the compensation costs associated with the EA’s Restoring Sustainable Abstraction programme;
- (iii) increased costs necessary to balance water supply and demand based on companies’ application of Defra’s UK 2009 climate projections data and appropriate analytical tools and processes;
- (iv) costs associated with the impact of the introduction of permit schemes made pursuant to the Traffic Management Act; and
- (v) acquisition of land associated with the Tideway Tunnel Project (TWUL Notified Item only).

(b) Relevant Change of Circumstances

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

- (i) Competition, where costs arise from the change in companies’ legal requirements;

- (ii) the adoption of private sewers;
- (iii) work related to the implementation of the Water Framework Directive; and
- (iv) 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").

In relation to certain licences:

- (i) Ofwat guidance sets out that in respect of the triviality threshold each Notified Item must equal at least 2 per cent. of service turnover; and
- (ii) The materiality threshold will only be reached where the sum of the net present values is equal to at least 10 per cent. of the latest reported service turnover attributable to the Regulated Company's water and sewerage business,

in each case calculated on the basis of net present values of (x) Base Cash Flows consisting of operating expenditure and/or loss of revenue calculated over 15 years and (y) other Base Cash Flows calculated over the period to the next Periodic Review. 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 is required to apply.

(c) *Shipwreck Clause*

In addition, under the Shipwreck Clause in the licence of a Regulated Company, the Regulated Company or Ofwat is 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. TWUL has a Shipwreck Clause in its Licence.

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.

References to the Competition Commission

If Ofwat fails 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 its Final Determination to the Competition Commission.

Environmental Regulation

The activities of Regulated Companies are affected by the requirements of both EU directives which provide a common framework for stewardship of the environment and social considerations and national and local level legislation and regulation. The European Court of Justice (the “ECJ”) has held that EU 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. Such EU Directives include the Water Framework Directive (2000/60/EC) (the “Water Framework Directive”), the Urban Waste Water Treatment Directive (91/271/EEC) (the “UWWTD”) and the Industrial Emissions Directive (2010/75/EU) (the “IED”) and are discussed below.

Urban Waste Water Treatment Directive

The UWWTD (transposed into UK legislation by the Urban Waste Water Treatment Regulations 1994 (as amended)) relates to the collection, treatment and discharge of urban wastewater (primarily sewage). 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 arises from the treatment process. Historically, all of the collecting systems in the UK have been reported as compliant with the UWWTD by the Government, and that, with a few exceptions, the treatment requirements have also been satisfied. As a result of non-compliance with the UWWTD, the Thames Tunnel project has been commenced (see Chapter 5, “*Description of the TWU Financing Group*”).

Localism Act and the UWWTD

The ECJ is currently hearing proceedings against the UK alleging that the Government has failed to fully implement the UWWTD correctly with respect to overflows from the sewer network in London. This could result in infraction fines being imposed on the Government.

Section 48 of the Localism Act provides that a minister of the crown may require a public authority (which has been designated as such) to make a payment of an amount determined by the minister in respect of any EU financial sanction imposed on the UK. The Localism Act gained Royal Assent on 15 November 2011 although section 48 has not yet been enacted. “*Public authority*” is defined under the Localism Act in section 51, amongst other things, as “*any other person or body which has any non-devolved functions*”. Section 51(4) goes on to explain that references to functions are to functions of a public nature.

The Localism Act provides that EU financial sanctions can only be passed down to a public authority if the minister is satisfied that acts of the authority caused or contributed to the infraction of EU law for which that financial sanction was imposed.

Water Framework Directive

The Water Framework Directive 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 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. As there is a timetable mismatch between WFD and Periodic Review process there is moderate risk that substantial investment could be required within Periodic Review periods, to be funded through IDOK or a similar mechanism. To comply with the Water Framework Directive, Member States will have to ensure all their waters achieve at least “good status” by 2015, or, on the grounds that achieving a ‘good’ status is either disproportionately costly or technically unfeasible, set out alternative standards and/or a timetable for the achievement of these by no later than 2027.

The Water Framework Directive also has ‘daughter Directives’ of which the one most likely to drive substantial investment is that regarding Environmental Quality Standards (2008/105/EC, usually referred to as the ‘Priority Substances Directive’). The current version of this Directive continues to represent a compliance (and hence investment) risk, but there is a proposed revision that significantly increases our risk of needing to invest by the introduction of additional parameters (such as pharmaceutical residues) that can only be addressed by the installation of the equivalent of drinking water treatment at the STW.

Industrial Emissions Directive and H4 Odour Guidance

The IED came into force on 6 January 2011 and will be implemented through the Environment Permitting regime in England and Wales. The Government is consulting on the transportation of the Directive, and at present, the Government has stated in its consultation paper that it is minded not to include sludge treatment centres as an activity that requires IED permitting. This is a substantial shift as it was considered that in the IED could potentially result in all of TWUL’s 37 sludge treatment centres requiring a bespoke Environmental Permit, with attendant cost and additional requirements.

The H4 odour guidance, published in April 2011, implies potential new obligations for sites subject to the IED and applies to most activities that have an environmental permit although sewage treatment is excluded (as well as introducing more stringent odour management plans for existing sites that have Environmental Permits).

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 has stated that it will use its

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. 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 Megalitres 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;
- (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;
- (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 more than 5 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. The threshold was recently reduced from 50 Megalitres per annum (see "*Regulatory Developments*" below);
- (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 (raw/treated water and sewage/sludge) 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.

Merger Regime

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. 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.

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.

OFT Study into Organic Waste Markets

The OFT published its market study, “Organic Waste” on 21 September 2011. In its study, the OFT makes recommendations to Ofwat with a view to increasing competition in the market for the treatment of organic waste, including sewage sludge. Ofwat is currently considering the OFT’s recommendations, including changes to economic regulation to enable the creation of a market in the treatment of organic waste. This may lead to opportunities for TWUL to increase its business treating sewage sludge. However, if TWUL’s business in treating sewage sludge decreases, it could affect TWUL’s turnover which could adversely affect TWUL’s business, operational performance, profitability or financial condition.

Regulatory Developments

Water White Paper

On 8 December 2011, the Government published a White Paper, “*Water for Life*” (the “Water White Paper”).

One of the key themes of the White Water Paper was to increase competition in the water sector. Proposals for achieving this centred on increasing choice for non-household consumers through both the extension of the WSL regime (see “*Water Supply (Amendment to the Threshold Requirement) Regulations 2011*” below), and a proposal to introduce self-supply licences enabling “suitably qualified” large customers to purchase water in the wholesale market. To further increase competition, proposals set out in the White Water Paper also centred on facilitating the entry of new market participants by reforming existing pricing rules for new entrants, harmonising regulation to create unified codes for operating standards and aligning these to create a market with Scotland and introducing licenses for the provision of network services (such as water treatment and sewerage). However, the Government has stated that it “does not believe there is a case in the foreseeable future for opening up the household market to competition”.

The Water White Paper also includes proposals to reform the abstraction licence regime and use of water resources (including interconnection between undertakers and the trading of bulk supplies) and address water efficiency, quality and affordability.

The Water White Paper deviates in places from Martin Cave’s recommendations in his review, “Independent Review of Competition and Innovation in Water Markets”, recognising the clear imperative for the water sector to “remain an attractive prospect for long-term investors if the cost of capital, and the cost to customers, is to remain affordable”. In particular, the Government has “decided not to take forward the proposal for separation of the retail businesses of water companies that was proposed by the Cave review”, as the Government does not want to “introduce changes that risk unsettling investor confidence”.

In the Queen’s Speech given on 9 May 2012, Her Majesty the Queen stated the Government’s intention to publish a draft Water Bill within the next parliamentary session.

Water Supply (Amendment to the Threshold Requirement) Regulations 2011

As part of the Government’s plans to increase the size of the water supply licensing market, on 15 December 2011, the Water Supply (Amendment to the Threshold Requirement) Regulations 2011 came into force. These reduced the non-household consumer threshold in the water supply licensing regime from 50 Megalitres per annum to 5 Megalitres per annum. This means that holders of water supply licences are now permitted to supply customers using in excess of 5 Megalitres per annum. This change in threshold represents an increase in the size of the market from approximately 2,200 to approximately 26,000 consumers and from approximately 350 to 5000 for TWUL’s customers.

In the Water White Paper, the Government has stated it will “deregulate further in a future Water Bill by reducing the threshold to zero so that any non-household customer can tender their water and sewerage services”, but no timetable has been given. This statement also represents a further proposed widening of the WSL regime in the White Water Paper, by extending it to include sewerage services.

Ofwat’s Future Price Limits Framework

On 23 November 2011, Ofwat published “*Future price limits – a consultation on the framework*” as part of its proposed framework for setting price limits.

In the consultation, Ofwat stated that its overall aims in the Future Price Limits consultation are to streamline the price review process, making companies more accountable for their actions and increasing their choice through a lighter-touch regulation.

Following the consultation, in May 2012, Ofwat published the “*Future Price Limits - statement of principles*” (“FPL Principles”), which set out high-level principles which will guide how it sets price limits for Price Review 2014 and in the longer term. Ofwat said in the FPL Principles that there continue to be a number of questions to be addressed (for example as regards the precise scope and form of the separate wholesale and retail price controls). Ofwat proposes to continue to engage with stakeholders in respect of these outstanding issues during 2012 with a view to consulting on the details of its price control methodology for Price Review 2014 in Autumn 2012.

The FPL Principles indicate that future Price Reviews will:

- set two separate price controls for retail and wholesale, rather than a single price control. Ofwat has stated that both price controls will be for a period of five years from April 2015;
- set a separate sub-price limit within the wholesale control, but excluding water resources. Ofwat has indicated that this will be “non-binding” for Price Review 2014;
- regulate outcomes with appropriate measures of success and incentives, rather than outputs. This would prioritise the longer term results which companies deliver, when monitoring their performance, ensuring that the issues of greatest importance to customers are taken into account;
- have greater customer engagement, with Ofwat expecting companies to engage with their customers in setting the outcomes to be achieved;
- use a total expenditure (“totex”) approach for cost assessment, cost recovery and incentives for the wholesale price control, rather than maintaining the current distinction between capex and opex;
- introduce incentives to abstract water sustainably and increase water trading; and
- introduce incentives to optimise the operation of the water network.

Priority Substances Directive

The Priority Substances Directive (“Environmental Quality Standards Directive”, 2008/105/EC) was adopted and transposed too late for site-specific investment to be identified for PR09, but a comprehensive investigation of the prevalence of the regulated parameters at a range of STWs was agreed and is nearing completion. The investigation (“Chemical Investigation Programme”) is intended to provide the technical basis to inform UK policy decisions regarding implementation of 2008/105/EC; the requirements of this directive are not absolute but subject to a test of disproportionate cost. The extent of potential investment is further complicated by the proposed revision of this directive, currently under discussion in Europe. If the revisions as currently proposed are adopted, it will potentially represent a step change in investment needs, as some of the parameters it seeks to regulate are pharmaceutical residues. There is no clear means to regulate these substances before disposal to sewer and hence if they require removal, the only option is to do so by treatment at the STW. However, conventional treatment processes are insufficient to ensure adequate removal and additional processes – in essence, those used to produce potable water – will need to be deployed.

Customers’ Interests

General

Ofwat is responsible for protecting the interests of customers. It monitors 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 independent CCW, whose role is to provide information of use to consumers and to promote the interests of all water consumers. The future role of the CCW is being considered as part of the Gray Review (which reported to ministers in March 2011).

Service Incentive Mechanism

Ofwat introduced a performance assessment called the service incentive mechanism (“SIM”) which replaced its overall performance assessment (“OPA”) measure. The SIM is designed to focus on the quality of customer service and the customer experience of contact with companies.

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.

Ofwat will calculate incentives at the next price review based on average performance over the years 2011/12, 2012/13 and 2013/14.

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 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, 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.

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 certain Authorised Credit Facilities entered into with the EIB on or prior to the Initial Issue Date, the EIB;
- (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:

- (i) any proposal that is the subject of an Entrenched Right or Reserved Matter in favour of the Bondholders; or

- (j) 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 66⅔ 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

Authorised Credit Providers will be Secured Creditors party to the STID. If an Authorised Credit Provider has provided Class A Debt, it shall be a Class A Debt Provider and will form part of the Class A DIG. If an Authorised Credit Provider has provided Class B Debt, it shall be a Class B Debt Provider and will form part of the Class B 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 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 66⅔ 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 66⅔ 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 paragraph (a) above, for a further 60 days unless Class A DIG Representatives in respect of 33⅓ 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 paragraph (b) above, 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 EIB, 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 EIB, to demand for prepayment under certain Authorised Credit Facilities 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 Finance Lessors, the Hedge Counterparties, the Security Trustee, the Cash Manager, the Standstill Cash Manager, the Liquidity Facility Providers, the Credit Facility Providers, the EIB, 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”) either on the Initial Issue Date or subsequently by way of accession. The CTA sets out the representations, covenants (positive, negative and financial), Trigger Events and Events of Default which apply to each 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). The CTA also sets out the Hedging Policy with which each Hedging Agreement entered into must comply (see the section “Hedging Policy” 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;
- (q) 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;
- (r) in the case of TWUL, it having the necessary Intellectual Property Rights to carry on its Appointed Business;
- (s) in the case of TWUL, it being unaware of any Special Administration Order having been made in respect of it;
- (t) 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; and
- (u) in respect of any offering of securities in a transaction exempt from the registration requirements of the Securities Act, pursuant to section 4(2) of the Securities Act (a "Private Placement"): (i) compliance with US federal securities law (for example, limiting communications with US investors), (ii) conduct of TWUL's business as it may relate to US legislation (for example, compliance with US trade sanctions and money laundering laws) and (iii) compliance with UK and US pension obligations.

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;
 - (viii) to effect and maintain those insurances in connection with its Business as are required under the CTA;
 - (ix) 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;
 - (x) to ensure it has adequate financial and management resources to enable it to discharge its core obligations under the Instrument of Appointment;
 - (xi) (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;
 - (xii) 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
 - (xiii) 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 five 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 (ii);
- (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 (iv).

(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 Shipwreck 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 12 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 12 month period. Accordingly, the Monthly Payment Amounts due for the remaining months of such 12 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 12 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 12 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 certain Finance Leases entered into on the Initial Issue Date 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.

Hedging Policy

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 five 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.

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	TWUL	Guarantees all obligations of TWUF, TWUCFH and the Issuer under the Finance

and the Instrument of Appointment		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

Finance Leases

TWUL has entered into various Finance Leases, whereby the Finance Lessor leases the Equipment sold or supplied to TWUL on the terms and subject to the conditions set out in the lease agreements with TWUL as

lessee and the respective leasing company as lessor. The Finance Documents also permit TWUL to enter into new Finance Leases in the future.

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 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")).

Authorised Credit Facilities

TWUL has entered into various bilateral and syndicated bank facilities, which incorporate and are subject to the terms of the STID and CTA.

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 April 2012. 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.

Hedging

TWUL has entered into a number of Hedging Agreements, each of which must comply with the terms of the Hedging Policy. The Hedging Agreements incorporate and are subject to the terms of the CTA and STID. 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. (See “Hedging Policy” under “Common Terms Agreement” above for further detail.)

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(n) (*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(n) (*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.

The Issuer entered into a dealership agreement dated 24 August 2007 (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 €100,000 (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(n) (*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(n) (*Definitions*)) which appear on the Page as of the Relevant Time (as defined in Condition 6(n) (*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(n) (*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(n) (*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(b)(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(n) (*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(n) (*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(n) (*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(n) (*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(n) (*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(n) (*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:

- (c) 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
- (d) 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:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” 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

“D₂” 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:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” 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

“D₂” 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:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” 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

“D₂” 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 Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified;

“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;

“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*), (i) if RPI is specified in the relevant Final Terms, 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; or (ii) if HICP is specified, the Harmonised Index of Consumer Prices for the Eurozone, excluding tobacco, non-revised, published by EUROSTAT and appearing on the AFT website (www.aft.gouv.fr) or any comparable index which may replace the Harmonised Index of Consumer Prices for the Eurozone 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:

$$\text{IFA} = \text{RPI}_{m-3} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (\text{RPI}_{m-2} - \text{RPI}_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

“IFA” means the Index Figure applicable;

“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;

“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:

$$\text{IFA} = \text{RPI}_{m-8} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (\text{RPI}_{m-7} - \text{RPI}_{m-8})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

“IFA” means the Index Figure applicable;

“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;

“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 12 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 12 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 14th 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 seven 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) (*Delay in publication of Index*), 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) (*Delay in publication of Index*), 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 14th 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 unmaturing Coupons attached), unmaturing 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 unmaturing 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 unmaturing Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmaturing 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 10 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 Protections

(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 seven 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

The following description is in respect of registered bonds issued under the Programme that are offered outside the United States in accordance with Regulation S of the Securities Act.

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 depository 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; (b) 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 [●] 2012 [and the supplemental Prospectus dated [●] which [together] constitute[s] (i) a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended to the extent implemented (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 [●] [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 [●] [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 [●] [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 Prospectus dated [●] [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.]

[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: [●]
[€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*

	<i>Business Day Convention and applicable Business Centre(s) for the definition of "Business Day"/not adjusted]</i>
(iii) Fixed Coupon Amounts:	[●] per Calculation Amount
(iv) Broken Amounts:	[●] 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 <i>(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))</i>
(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] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(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:	[●]
	<i>(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)</i>
– Interest Determination Date(s):	[●] <i>(Second Business Day prior to the start of each Interest</i>

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 annum [●] per cent. per annum
 - (ii) Reference Price: [●] [●]
 - (iii) Any other formula/basis of determining amount payable: [●]
 - (iv) Day Count Fraction in relation to [Condition 8(e)/specify other]

	Redemption Amounts and late payment:	(Consider applicable day count fraction if not U.S. dollar denominated)
19	Indexed Bond Provisions:	[Applicable/Not Applicable] <i>[If not applicable, delete the remaining subparagraphs of this paragraph]</i>
	(i) Index/Formula:	[Specify RPI/HICP as applicable]
	(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) <i>[Specify “3 month lag”/“8 month lag” as applicable]</i>
	(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] <i>[If not applicable, delete the remaining subparagraphs of this paragraph]</i>
	(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): [●] per Calculation Amount
- (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: [●] per Calculation Amount

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 [Yes/No. If yes, give details]

- be attached to Definitive Bonds (and dates on which such Talons mature):
- 26 Details relating to Partly Paid Bonds: [Not applicable/give details]
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:
- 27 Details relating to Instalment Bonds: [Not applicable/give details]
(i) Instalment Date: [●]
(ii) Instalment Amount: [●]
- 28 Redenomination, renominatisation 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 or a replacement 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

These Final Terms comprise the details required for issue and admission to trading on the London Stock Exchange's Regulated Market/other (specify) 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 Investors 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 one (or more) of the following options, as applicable:

[Standard & Poor's Credit Market Services Europe Limited is established in the European Union and registered under Regulation (EC) No. 1060/2009.]; or
[Moody's Investors Service Limited is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

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 or a replacement prospectus under Article 16 of the Prospectus Directive.)]

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

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 general 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 not “yearly interest”. Interest 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 will not be yearly interest.

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. If UK withholding tax is imposed, the Issuer will not pay additional amounts in respect of the Bonds.

HM Revenue & Customs has issued a consultation document which, amongst other things, invites views on the proposal that deduction on account of UK income tax at the basic rate be required from payments of interest arising in the UK irrespective of whether such payments are payments of yearly interest. If this proposal is implemented, interest on Bonds with a maturity of less than a year would nevertheless be subject to withholding or deduction on account of United Kingdom income tax at the basic rate, subject to the availability of other reliefs (including the “quoted Eurobond” exemption described above) or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

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

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. However, in relation to amounts payable on redemption of such Bonds HM Revenue & Customs published practice indicates that HM Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on the redemption of deeply discounted securities on or before 5 April 2013.

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” 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

EU Council Directive 2003/48/EC on the taxation of savings income (the “EU Savings Directive”), requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of), an individual or certain other persons in that Member State, except that Austria and Luxembourg instead apply a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

A number of third countries (including Switzerland) and certain dependent or associated territories of certain Member States have adopted similar measures to the EU Savings Directive.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

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 20 years from 10 July 2007.

CHAPTER 11

DESCRIPTION OF THE HEDGE COUNTERPARTIES

The information contained herein with respect to 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 public limited company incorporated in Scotland with registration number SC090312 and was incorporated under Scots law on 31 October 1984. RBS is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (the “RBS Group”), which is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the RBS Group operates in the United Kingdom, the United States and internationally through its principal subsidiaries, RBS and National Westminster Bank Plc (“NatWest”). Both RBS and NatWest are major United Kingdom clearing banks. In the United States, RBS Group’s subsidiary Citizens Financial Group, Inc. 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.

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 from around 7,200 offices in over 80 countries and territories in Europe, the Asia-Pacific Region, North and Latin America, and the Middle East and North Africa. With assets of USD\$2,637 billion at 31 March 2012, HSBC is one of the world’s largest banking and financial services organisations. HSBC is marketed worldwide as ‘the world’s leading international bank’.

The short term senior unsecured and unguaranteed obligations of HSBC Bank plc are currently rated P-1 by Moody’s, A-1+ by S&P and F1+ by Fitch Ratings Ltd (“Fitch”) and the long term senior, unsecured and unguaranteed obligations of HSBC Bank plc are currently rated Aa2 by Moody’s, AA- by S&P 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. It is present in 79 countries and has almost 200,000 employees, including over 155,000 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.

BNP Paribas SA is the parent company of the BNP Paribas Group.

At 31 December 2010, the BNP Paribas Group had consolidated assets of Euro 1,965.3 billion (compared to Euro 1,998.2 billion at 31 December 2010), consolidated loans and receivables due from customers of Euro 665.8 billion (compared to Euro 684.7 billion at 31 December 2010), consolidated items due to customers of Euro 546.3 billion (compared to Euro 580.9 billion at 31 December 2010) and shareholders' equity (BNP Paribas Group share) of Euro 75.4 billion (compared to Euro 74.6 billion at 31 December 2010). Pre-tax net income at 31 December 2011 was Euro 9.7 billion (compared to Euro 13.0 billion at 31 December 2010). Net income, BNP Paribas Group share, at 31 December 2011 was Euro 6.0 billion (compared to Euro 7.8 billion at 31 December 2010). For up-to-date financial information, including quarterly results since the last fiscal year end, please refer to <http://invest.bnpparibas.com>.

The BNP Paribas Group currently has long-term senior debt ratings of AA- with negative outlook from Standard & Poors, Aa3 on watch with a view to a possible downgrade from Moody's and A+ with stable outlook from Fitch.

Lloyds TSB Bank plc

Lloyds TSB Bank plc ("Lloyds") 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 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.

Lloyds now operate through a number of significant brands including Lloyds TSB, Halifax, Bank of Scotland, Scottish Widows, Clerical Medical and C&G.

Lloyds's registered office is at 25 Gresham Street, London EC2V 7HN. Lloyds is a wholly owned direct subsidiary of Lloyds Banking Group.

Pursuant to two placing and open offers which were completed by 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 Lloyds Banking Group's issued ordinary share capital. Following further issues of ordinary shares, as at 18 May 2012, the UK Government's holding has been reduced to approximately 39.25 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. 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 2011, NAB had total assets of Australian Dollars 753.76 billion, risk weighted assets of Australian Dollars 341.1 billion, a Tier 1 capital ratio of 9.70 per cent., Australian Dollars 112.7 billion in funds under management, and reported an underlying profit of Australian Dollars 8.7 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 2011

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 banks¹⁵ and largest listed institutions¹⁶, 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, Aa2 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".

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 and the long-term obligations of Barclays Bank PLC are rated A+ by Standard & Poor's, Aa3 by Moody's and A by Fitch.

Based on the Barclays Group's audited financial information for the year ended 31 December 2011, the Barclays Group had total assets of £1,563,402 million (2010: £1,490,038 million), total net loans and

¹⁵ Ranked 22nd globally, industry ranking, The Biggest Public Companies (Forbes 2010)

¹⁶ By market capitalisation (ASX) and total assets (Forbes 2010)

advances of £478,726 million (2010: £465,741 million), total deposits of £457,161 million (2010: £423,777 million), and total shareholders' equity of £65,170 million (2010: £62,641 million) (including non-controlling interests of £3,092 million (2010: £3,467 million)). The profit before tax from continuing operations of the Barclays Group for the year ended 31 December 2011 was £5,974 million (2010: £6,079 million) after credit impairment charges and other provisions of £3,802 million (2010: £5,672 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 2011.

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 March 2012, Deutsche Bank's issued share capital amounted to €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 March 2012, Deutsche Bank Group had total assets of € 2,103,295 million, total liabilities of € 2,047,490 million and total equity of € 55,805 million on the basis of IFRS (unaudited).

Deutsche Bank's long-term senior debt has been assigned a rating of A+ (outlook negative by Standard & Poor's, Aa3 (under review for downgrade) by Moody's Investors Services and A+ (outlook stable) by Fitch.

JPMorgan Chase Bank, National Association

JPMorgan Chase Bank, National Association ("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 March 2012, JPMorgan had total assets of U.S.\$1,842.7 billion, total net loans of U.S.\$584.6 billion, total deposits of U.S.\$1,188.5 billion, and total stockholder's equity of U.S.\$134.3 billion. These figures are extracted from JPMorgan's unaudited Consolidated Reports of Condition and Income (the "Call Report") as of 31 March 2012, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles. The Call Report, including any update to the above quarterly figures is filed with the Federal Deposit Insurance Corporation and 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 2011, of JPMorgan Chase & Co., the 2011 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.

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 as Morgan Stanley International Holdings Limited, and changed its name to Morgan Stanley & Co. International Limited on 25 October 1993. 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 (Negative Watch) by Moody's and A-1 (Negative Outlook) by Standard & Poor's and the long-term senior, unsecured and unguaranteed obligations of Morgan Stanley & Co International plc are currently rated A2 (Negative Watch) by Moody's and A (Negative Outlook) 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.

Société Générale, London Branch

Société Générale is one of the leading financial services groups in Europe. With its diversified universal banking model, the Société Générale Group combines financial solidity and a sustainable growth strategy with the ambition of being the relationship-focused bank, a leader in its markets, close to its customers, and recognised for the quality and the commitment of its teams.

The Société Générale Group has over 159,000 employees across 77 countries, who serve more than 33 million customers across the globe. Société Générale's teams offer advisory and other services to individual customers, companies and institutions as part of three main business lines:

- Retail Banking in France under the Société Générale, Credit du Nord and Boursorama brands;
- International Retail Banking, which is present in Central and Eastern Europe, Russia, the Mediterranean Basin, Sub-Saharan Africa, Asia and in the French Overseas territories;
- Corporate and Investment Banking with its broad range of expertise in investment banking, finance and market activities.

Société Générale is also a major player in the businesses of Specialised Financial Services and Insurance, and Private Banking, Global Investment Management and Services.

On 2 March 2012 Société Générale's long –term rating was A1 at Moody's, A+ at Fitch and A at Standard & Poor's.

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, Deutsche Bank AG, London Branch, HSBC Bank plc, Lloyds TSB Bank plc, J.P. Morgan Securities Ltd., Macquarie Bank Limited, London Branch, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc, National Australia Bank Limited, RBC Europe Limited, Scotiabank Europe plc, Société Générale 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, supplemented and/or restated from time to time) 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.

Selling and Transfer Restrictions of the United States of America

Selling Restrictions

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, and each further Dealer appointed under the Programme will be required to agree, that, except as permitted by the Dealership Agreement, it will not offer, sell or, in the case of Bearer Bonds, 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.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Transfer Restrictions

Each purchaser of the Bonds outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Bonds, will be deemed to have represented, agreed and acknowledged that:

- (a) It is, or at the time the Bonds are purchased will be, the beneficial owner of such Bonds and (i) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (b) It understands that such Bonds and the Guarantees have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Bonds except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (c) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

“THIS NOTE AND THE GUARANTEES IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”
- (d) It understands that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

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 and, for the purposes of this section, 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, 9 June 2011 and [7] June 2012. 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 20 June 2012.

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 2011 and the year ended 31 March 2012;
- (c) the audited financial statements of TWUF for the year ended 31 March 2011 and the year ended 31 March 2012;
- (d) the audited financial statements for the Issuer for the year ended 31 March 2011 and the year ended 31 March 2012;
- (e) the audited financial statements for TWH for the year ended 31 March 2011 and the year ended 31 March 2012;
- (f) the audited financial statements for TWUCFH for the year ended 31 March 2011 and the year ended 31 March 2012;

- (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, the supplementary prospectus dated 24 March 2011 and the base prospectus dated 24 June 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 2012.

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, 30 September 2010 and 30 September 2011 (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 and TWUCFH 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, 31 March 2011 and 31 March 2012 (including comparative information), and the accounts of the Issuer for the years ended 31 March 2009, 31 March 2010 and 31 March 2011 have been prepared in accordance with generally accepted accounting standards in the United Kingdom on a non-consolidated basis (including comparative information) and the accounts of the Issuer for the year ended 31 March 2012 have been prepared in accordance with international financial reporting standards (IFRS) as adopted by the EU and IFRIC interpretations as they apply to the financial statements of the Issuer 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 2012 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, 31 March 2010 and 31 March 2011 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:

“2009 Final Determination” means the final price determination made by Ofwat in respect of the AMP 5 Period.

“2010 PD Amending Directive” means the EU Directive 2010/73/EU which amends the Prospectus Directive 2003/71/EC and the Transparency Directive 2004/109/EC.

“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 Document 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; (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; and (d) with respect to the Tax Deed of Covenant, a memorandum in substantially the form set out in the Schedule to the Tax Deed of Covenant pursuant to which a Permitted Subsidiary accedes to the Tax Deed of Covenant.

“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 and 9 December 2011 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 and in this respect:

“AMP4” means the asset management plan prepared for the AMP4 Period;

“AMP5” means the asset management plan prepared for the AMP5 Period; and

“AMP6” means the asset management plan to be prepared for the AMP6 Period.

“AMP Period” means a five year period in relation to which an AMP is submitted and in this respect:

“AMP4 Period” means the AMP Period commencing on 1 April 2005;

“AMP5 Period” means the AMP Period commencing on 1 April 2010; and

“AMP6 Period” means the AMP Period commencing on 1 April 2015.

“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 (excluding 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,

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 Finance Leases, certain Authorised Credit Facilities entered into with the EIB on or prior to the Initial Issue Date, 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 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 as amended, supplemented, restated and/or novated from time to time, between, among others, the Issuer and the Bond Trustee, 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” means the facility made available to Kemble Water Limited pursuant to the Bridge Facility Agreement.

“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 RBC Europe Limited as arrangers.

“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 replacements 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) certain Authorised Credit Facilities entered into with the EIB;

- (v) certain Finance Leases;
 - (vi) certain 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;
 - (iv) any G&R Deed in respect of Class A Wrapped Bonds; and
 - (v) each Authorised Credit Facility designated as Class A Debt.

“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 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 Covered Bond, the Secondary Market Guarantor in respect of such Class A FG Covered Bond or, as the case may be, Secured TWUF 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 certain Authorised Credit Facilities entered into with the EIB on or prior to the Initial Issue Date, the EIB;
- (g) in respect of each Finance Lease, 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 Provider" means a provider of, or Financial Guarantor of, Class A Debt.

"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 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 Provider” means a provider of, or Financial Guarantor of, Class B Debt.

“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 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 and as amended and supplemented from time to time between, among others, the Obligors, 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.

“CRA Regulation” means Regulation (EC) No 1060/2009 on credit rating agencies.

“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, J.P. Morgan Securities Ltd., Lloyds TSB Bank plc, Macquarie Bank Limited, London Branch, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc, National Australia Bank Limited, RBC Europe Limited, Scotiabank Europe plc, Société Générale 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 as amended, supplemented, restated and/or novated from time to time between the Issuer, the Obligors and the Dealers named therein (or deemed named therein) as amended and restated on 25 July 2008, 15 September 2009 and 24 June 2011 as further amended and restated on 18 June 2012 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 to 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 12 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 12 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 EIB and TWUL relating to certain Authorised Credit Facilities entered into with the EIB on or prior to the Initial Issue Date.

“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.

“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 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 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 Supply (Water Quality) Regulations 2000 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 and any other credit support or collateral documentation entered into in connection therewith or pursuant thereto;
- (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) certain Authorised Credit Facilities entered into with the EIB (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 Finance Leases entered into on or prior to the Initial Issue date 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, and is bound by, the terms of the STID and the CTA (each a “Finance Lease”)).

“Finance Lessors” means any person which has entered into or which will enter 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 12 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”.

“Hedge Counterparties” means any counterparty to a Hedging Agreement which is or becomes party to the STID and the CTA, by way of accession, 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 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 2, 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”.

“Index Event” has the meaning given to it in Condition 8(c).

“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).

“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 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 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 Subordinated Amount” means the outstanding debt for consideration payable to the Parent by TWH in respect of the purchase by TWH of TWUL.

“Initial Subordinated Creditor” means the Parent.

“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, TWUL 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 Finance Lease entered into on or prior to the Initial Issue Date:

- (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 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.

“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.

“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 and sewerage 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 or any successor thereto 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 any facility arranger under a 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.

“Market” means the London Stock Exchange’s Regulated Market.

“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 9 December 2011 and as further 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.

“Megalitre” means a million litres

“Member State” means a member state of 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 12 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 UK Listing Authority.

“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.

“Other Parties” means the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the 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 8(h) (*Redemption, Purchase and Cancellation – Purchase of Bonds and 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.

“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 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 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 12 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 Authorised Credit Facility entered into with the EIB by the EIB save that TWUL will not make payment to the EIB 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 Authorised Credit Facilities entered into with the EIB) 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 on or 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 Obligor 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.

“Prospectus Directive” means Directive 2003/71/EC.

“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.

“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.

“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(n) (*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 and set out in Chapter 7 (*Overview of the Financing Agreements*).

“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 Account Bank, 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 Hedge Counterparties, the relevant 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 Bond Trust Deeds” means the TWUF Bond Trust Deeds relating to Secured TWUF Bonds.

“Secured TWUF Bondholders” means the holders from time to time of the Secured TWUF Bonds.

“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 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 TWUCFH and the Issuer respectively, and “Share Pledge” means any one of them.

“Shipwreck 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.

“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 and as amended and supplemented from time to time 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.

“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.

“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(n) (*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 entitled the “Transaction Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account 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, a company incorporated in England and Wales (registered number 6195202).

“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.

“TWH 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.

“TWUCFH” means Thames Water Utilities Cayman Finance Holdings Limited, a company incorporated in the Cayman Islands with limited liability under registration number MC-196364.

“TWUF” means Thames Water Utilities Finance Limited, a company incorporated in England and Wales (registered number 2403744).

“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 Bonds” means the Flipper Bonds and the Legacy Bonds.

“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, a company incorporated in England and Wales (registered number 2366661).

“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.

“UWWTD” means the Urban Waste Water Treatment Directive (91/271/EEC).

“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 Region” means the geographical area for which a Regulated Company has been appointed as water undertaker under Section 6 of the WIA.

“Water White Paper” means the white paper “Water for Life”, published by the Government on 8 December 2011.

“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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