

## **IMPORTANT NOTICE**

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This prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this prospectus electronically or otherwise to any other person. In order to be eligible to view this prospectus or make an investment decision with respect to the securities, investors must not be U.S. persons (within the meaning of Regulation S under the Securities Act ("Regulation S")). This prospectus is being sent at your request and by accessing this prospectus, you shall be deemed to have confirmed and represented to us that (i) you have understood and agree to the terms set out herein, (ii) you consent to delivery of this prospectus and any amendment or supplement thereto by electronic transmission, (iii) you are not a U.S. person (within the meaning of Regulation S) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia, and (iv) if you are a person in the United Kingdom, then you are a person who (A) has professional experience in matters relating to investments or (B) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005.

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 PLC, LLOYDS BANK PLC, MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC, MORGAN STANLEY & CO. INTERNATIONAL PLC, NATIONAL AUSTRALIA BANK LIMITED (ABN 12 004 044 937), 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 PLC, LLOYDS BANK PLC, MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC, MORGAN STANLEY & CO. INTERNATIONAL PLC, NATIONAL AUSTRALIA BANK LIMITED (ABN 12 004 044 937), 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.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Thames Water Utilities Cayman Finance Limited or BARCLAYS BANK PLC, BNP PARIBAS, DEUTSCHE BANK AG, LONDON BRANCH, HSBC BANK PLC, J.P. MORGAN SECURITIES PLC, LLOYDS BANK PLC, MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC, MORGAN STANLEY & CO. INTERNATIONAL PLC, NATIONAL AUSTRALIA BANK LIMITED (ABN 12 004 044 937), RBC EUROPE LIMITED, SCOTIABANK EUROPE PLC, SOCIÉTÉ GÉNÉRALE, OR THE ROYAL BANK OF SCOTLAND PLC (nor any person who controls any of them respectively nor any director, officer, employee, representative nor agent of any of them respectively nor affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference or discrepancy between the prospectus distributed to you in electronic format and the and the hard copy version available to you on request from the Issuer, the Guarantors, the Arranger and the Dealers.

If you receive this prospectus by email, you should not reply by email to this announcement, and you may not purchase any securities by doing so.

If you receive this prospectus by email, your use of this email is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



## **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".

This Prospectus has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the "Prospectus Directive")). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("EU") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Bonds issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list (the "Official List") and to trading on its regulated market (the "Main Securities Market"). Such approval relates only to the Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC ("MiFID") and/or which are to be offered to the public in any member state of the European Economic Area. Except where the context provides otherwise, references in this Prospectus to Bonds being "listed" (and all related references) shall mean that such Bonds have been admitted to trading on the Main Securities Market and have been admitted to the Official List. The Main Securities 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 will be listed on the Irish Stock Exchange. The Issuer may not issue unlisted notes.

The Bonds may be issued on a continuing basis to one or more of the Dealers specified under Chapter 2 "*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 1 "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds.*

*Co-Arranger*  
**Barclays**

*Certain Dealers*  
**BNP PARIBAS**  
**J.P. Morgan**  
**Morgan Stanley**  
**Scotiabank**

**Barclays**  
**HSBC**  
**MUFG**  
**RBC Capital Markets**

**Deutsche Bank**  
**Lloyds Bank**  
**National Australia Bank Limited**  
**Société Générale Corporate & Investment Banking**

**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 or Drawdown Prospectus (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).

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”) or a drawdown prospectus (“Drawdown Prospectus”) which, in the case of Bonds to be admitted to the Official List and to trading on the Main Securities Market, will be delivered to the Central Bank of Ireland and filed with the Irish 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:

	<b>Standard &amp; Poor’s</b>	<b>Moody’s</b>
Class A Unwrapped Bonds	A-	A3
Class B Unwrapped Bonds	BBB	Baa3

The Class A Unwrapped Bonds in issue have a rating of A- (negative outlook) by Standard & Poor’s and A3 (stable outlook) by Moody’s. The Class B Unwrapped Bonds in issue have a rating of BBB (negative outlook) by Standard & Poor’s and Baa3 (stable outlook) by Moody’s. 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 as amended (the “CRA Regulation”). 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 the Rating Agencies is a credit rating agency established and operating in the European Community and is registered under the CRA Regulation.

**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.**

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.

**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 (unless otherwise specified in the applicable Drawdown Prospectus).**

In the case of any Bonds 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).

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 Drawdown Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Bonds.

## IMPORTANT NOTICE

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

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

The information relating to the Hedge Counterparties contained in Chapter 11 “*Description of 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 the Final Terms or the Drawdown Prospectus (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 Central Bank of Ireland (<http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx>).

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 on or before the date of publication of the Final Terms or Drawdown Prospectus in respect of such Bonds. The identity of the Relevant Financial Guarantor for any Series of Bonds will be set out in the applicable Drawdown Prospectus.

In the case of each Tranche of Wrapped Bonds, admission to the Official List and trading on the Main Securities 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 Regulation (EU) No 575/2013 (the “CRR”) and the application of Article 409 of the CRR or section 5 of Regulation (EU) No 231/2013 to any such transaction) 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 and 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 UNITED STATES SECURITIES ACT OF 1933 (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 LICENCE 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 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) acting as the stabilising manager 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 ([http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames\\_Opco\\_prospectus\\_2007.pdf](http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames_Opco_prospectus_2007.pdf));
- (ii) the Terms and Conditions of the Bonds as contained at pages 132 to 164 (inclusive) of the base prospectus dated 25 July 2008 ([http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames\\_Opco\\_prospectus\\_2008.pdf](http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames_Opco_prospectus_2008.pdf));
- (iii) the Terms and Conditions of the Bonds as contained at pages 145 to 178 (inclusive) of the base prospectus dated 15 September 2009 ([http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames\\_Opco\\_prospectus\\_2009.pdf](http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames_Opco_prospectus_2009.pdf));
- (iv) the Terms and Conditions of the Bonds as contained at pages 150 to 185 (inclusive) of the base prospectus dated 15 June 2010 ([http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames\\_Opco\\_prospectus\\_2010.pdf](http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames_Opco_prospectus_2010.pdf));
- (v) the Terms and Conditions of the Bonds as contained at pages 168 to 205 (inclusive) of the base prospectus dated 24 June 2011 ([http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames\\_Opco\\_prospectus\\_2011.pdf](http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames_Opco_prospectus_2011.pdf));
- (vi) the Terms and Conditions of the Bonds as contained at pages 142 to 180 (inclusive) of the base prospectus dated 18 June 2012 ([http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames\\_Opco\\_prospectus\\_2012.pdf](http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames_Opco_prospectus_2012.pdf));
- (vii) the Terms and Conditions of the Bonds as contained at pages 140 to 179 (inclusive) of the base prospectus dated 11 March 2014 ([http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames\\_Opco\\_prospectus\\_2014.pdf](http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/Thames_Opco_prospectus_2014.pdf));
- (viii) the audited financial statements of TWUL for the year ended 31 March 2014 (as contained at pages 104 to 149 (inclusive) of TWUL's annual report and financial statements (<http://www.thameswater.co.uk/tw/common/downloads/1-thames-water-utilities-limited-annual-report-and-financial-statements-for-the-year-ended-31-march-2014.pdf>)) and the year ended 31 March 2015 (as contained at pages 90 to 125 (inclusive) of TWUL's annual report and financial statements ([http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/TWUL-March-2015\\_signed.pdf](http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/TWUL-March-2015_signed.pdf))) 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 Central Bank of Ireland or filed with it; and
- (ix) the audited financial statements of TWUF for the year ended 31 March 2014 (<http://www.thameswater.co.uk/tw/common/downloads/3-thames-water-utilities-finance-limited-annual-report-and-financial-statements-for-the-year-ended-31-march-2014.pdf>) and the year ended 31 March 2015 (<http://www.thameswater.co.uk/tw/common/downloads/aboutus-financial/TWUF-March-2015.pdf>) 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 Central Bank of Ireland 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.

The auditor's reports for the respective audited financial statements of TWUL and TWUF for the years ended 31 March 2014 and 31 March 2015 can be found at:

- pages 105-109, in the case of the audited financial statements of TWUL for the year ended 31 March 2014;
- pages 8-9, in the case of the audited financial statements of TWUF for the year ended 31 March 2014;
- pages 91-94, in the case of the audited financial statements of TWUL for the year ended 31 March 2015; and
- page 8, in the case of the audited financial statements of TWUF for the year ended 31 March 2015.

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.

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

## **PRESENTATION OF FINANCIAL INFORMATION**

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

For the year ending 31 March 2012 onwards (including the 31 March 2014 and 31 March 2015 accounts of the Issuer set out in Chapter 14 of this Prospectus) the Issuer prepared its financial statements in accordance with IFRS.

The audited financial statements of TWUL as at and for the year ended 31 March 2016 will be prepared in accordance with IFRS, and will include a restatement of TWUL’s audited financial statements for the year ended 31 March 2015 in accordance with IFRS. Future audited financial statements and unaudited interim financial statements of the TWUL thereafter will be prepared in accordance with IFRS only.

The audited financial statements of TWUH, TWUF and TWUCFH as at and for the year ended 31 March 2016 will be prepared in accordance with FRS 101, and will include a restatement of TWUH’s, TWUF’s and TWUCFH’s audited financial statements for the year ended 31 March 2015 in accordance with FRS 101. Future audited financial statements and unaudited interim financial statements of TWUH, TWUF and TWUCFH thereafter will be prepared in accordance with FRS 101 only.

## **SUPPLEMENTAL PROSPECTUS**

The Issuer has undertaken, in connection with the admission of the Bonds to the Official List and to trading on the Main Securities 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 new base 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 new base prospectus as such Dealer and Bond Trustee may reasonably request. The Issuer will also supply to the Central Bank of Ireland such number of copies of such supplement hereto or new base prospectus as may be required by the Central Bank of Ireland and will make copies available, free of charge, upon oral or written request, at the specified offices of the Paying Agents (as defined herein).

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 supplement to the Prospectus pursuant to Part 8, Paragraph 51 of the Prospectus (Directive 2003/71/EC) Regulations 2005 of the Republic of Ireland (S.I. No. 324 of 2005) (the “Irish Prospectus Regulations”), the Issuer shall prepare and make available an appropriate amendment or 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 Main Securities Market, shall constitute a supplemental prospectus as required by Part 8, Paragraph 51 of the Irish Prospectus Regulations. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

## **FINAL TERMS AND DRAWDOWN PROSPECTUSES**

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 or Drawdown Prospectus. 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, together with all of the necessary information in relation to the Bonds, may be contained in a Drawdown Prospectus. In addition, the Obligors may agree with any Dealer and the Bond Trustee that the Bonds may be issued in a form not contemplated by the Conditions (as defined below), in which event (in the case of the Bonds admitted to the Official List only) a Drawdown Prospectus will be made available which will describe the effect of the agreement reached in relation to such Bonds.

The terms and conditions applicable to any particular Tranche of Bonds which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Bonds which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being specified, completed or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise. Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the relevant Issuer and the relevant Bonds.

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 completed to the extent described in the relevant Final Terms.

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## **CHAPTER 1**

### **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 none of the Issuer, TWUL or the other Obligors is 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.*

*Further information on the Issuer and the other Obligors relating to the following risk factors is set out in Chapter 5A “Description of the TWU Financing Group” and Chapter 5B “Description of the TTT Project proposed delivery model”.*

*This Risk Factors chapter is presented to cover the following risk categories:*

- *TWUL Business Unit Considerations;*
- *Legal, Regulatory and Competition Considerations;*
- *TWUL Revenue and Cost Considerations;*
- *Risk arising from the Thames Tideway Tunnel;*
- *Legal Considerations; and*
- *Bond Considerations*

#### **TWUL Business Unit Considerations**

TWUL implemented a new business model, effective from 1 April 2015 (as described in Chapter 5A “Description of the TWU Financing Group”). The new model is set up to deliver greater flexibility, an increased customer focus, improve operating efficiency, and be more effective in delivering on the six key



Thames Water service outcomes (as documented in the TWUL 2015-2020 business plan), which are outlined below:

1. Provide a safe and reliable water service that complies with all necessary standards and is available when customers require it.
2. Provide a safe and reliable wastewater service that complies with all necessary standards and is available when customers require it.
3. Demonstrate to our customers and stakeholders that they can trust us, that we are easy to do business with and that we care.
4. Provide the level of service customers require in the most economic and efficient manner to ensure that bills are no higher than necessary.
5. Limit our impact on the environment and achieve a socially responsible and sustainable business for future generations, including reducing levels of leakage.
6. Provide our customers with a choice of easy-to-use contact options.

TWUL is now structured into separate business units, each with its own management structure and executive team:

- Wholesale Water;
- Wholesale Wastewater; and
- Retail (Retail Household and Retail Non-Household).

Each Business Unit has risk management processes which are aligned to the overall TWUL risk management framework. Key specific Business Unit considerations are outlined below, grouped across Wholesale and Retail due to the similarities in the nature of these areas. The regulatory framework, and the ODIs which the Business Units are aligned to deliver, are outlined in the Chapter 5A “*Description of the TWU Financing Group*”.

## **Wholesale (Water and Wastewater)**

### ***Overspend on totex allowances***

The Wholesale part of TWUL’s business has been set totex allowances for the AMP6 Period. Under the regulatory framework, TWUL faces a proportion of the risk from any totex overspend against these allowances. The proportions of totex overspend that would be faced by TWUL (through a totex penalty applied by Ofwat at the Periodic Review in 2019) are:

- 50.94 per cent. for Wholesale Water;
- 50.40 per cent. for Wholesale Wastewater; and
- 50.72 per cent. for the TTT Project.

For the Retail part of the business, TWUL faces the full risk of cost overspend against the allowed costs for the AMP6 Period.

### ***Failure by TWUL to deliver its wholesale totex programme***

TWUL requires significant Capital Expenditure for additions to, or replacement of, plant and equipment, in addition to operational expenditure. The price controls, set by Ofwat at each Periodic Review, take into account Ofwat's view of total expenditure (totex) and includes all capital and operational expenditure.

If TWUL is unable to deliver its performance commitments on time and maintain the asset base at expected levels from the planned profile of totex expenditure, TWUL's expected profitability or performance may suffer. The effect may come through the ODI framework (including, for example, ODIs to deal with late delivery of projects) and the totex sharing mechanism, as a result of unplanned expenditure over and above the plan, required to prevent failure and penalty. Reputational impacts, from Ofwat's response at the next Price Review, or from other agencies and stakeholders may also adversely affect TWUL's business.

### ***Asset Health and delivering AMP6 serviceability***

There is a risk that asset health and delivering AMP6 serviceability is insufficient to meet ODIs, which will (i) trigger a penalty to TWUL; and (ii) potentially cause unplanned service interruptions to customers, which could have an adverse effect on TWUL's business, operational performance, profitability or financial condition.

### ***Alliances***

There is a risk that the alliances formed by TWUL to deliver a large element of the infrastructure and non-infrastructure activities for Wholesale in AMP6 do not deliver the required efficiencies and/or the level of service required to meet TWUL's regulatory obligations. This could adversely affect TWUL's business, operational performance, profitability or financial condition. In addition, underperformance against the relevant performance commitments will lead to financial penalties for TWUL under the ODIs.

### ***Sewer flooding***

TWUL's sewerage systems (as described more fully in Chapter 5A "*Description of the TWU Financing Group*") can, during prolonged heavy rainfall, reach their hydraulic capacity, resulting in flooding. It is not possible to accurately forecast the occurrence or impact of sewer flooding, and so it is not practical to make full or reliable provision for the effects, or the alleviation of the risk, of sewer flooding. This means that there is a risk that TWUL is not sufficiently funded in AMP6 to cover the financial cost of measures to deal with sewer flooding, if rainfall over the five years is significantly higher than expected.

In addition, underperformance against the two sewer flooding performance commitments will lead to financial penalties for TWUL under the ODIs.

### ***Environmental pollution offences***

Due to the extent and location of TWUL's waste network and assets, there is a risk that, from time to time, unlawful waste discharges may take place (whether into controlled waters or onto land).

Such discharges may constitute criminal offences under various UK environmental legislation (including the Environmental Permitting Regulations 2010 and the Environmental Protection Act 1990) and, depending upon the assessed levels of culpability and harm, as well as any aggravating and/or mitigating factors, could result in prosecution by the Environment Agency and attract significant fines.

Following the implementation of the sentencing council guidelines for environmental offences in July 2014, for those cases involving the highest levels of culpability (whether assessed as negligent, reckless or deliberate) and harm, the courts have the power to impose fines significantly in excess of £1 million per incident.

Fines levied against TWUL may be reduced by a range of mitigating factors including: (i) early guilty plea; (ii) voluntary reparation; and (iii) evidence that the Board of Directors of TWUL is taking effective steps to secure a substantial overall improvement in the fulfilment of its environmental duties.

### ***Water shortages***

In the event of water shortages, additional costs may be incurred by TWUL in providing 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 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. This could result in service interruptions and compensation for customers.

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 these eventualities could adversely affect TWUL's business, operational performance, profitability, financial condition or key assets.

### ***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. In addition, underperformance against the performance commitment for supply interruptions will lead to financial penalties under the ODIs.

### ***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, operational performance, 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 reasonable 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 to secure that the water was fit for human consumption on leaving its pipes or was not used for human consumption.

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.

### ***Catastrophic Risk***

Catastrophic events such as dam bursts, fires, earthquakes, floods, droughts, terrorist attacks, diseases, plant failure, systems 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 Interim Determination under the Substantial Effects Clause, any costs resulting from suspension of operations of TWUL could have a Material Adverse Effect on the ability of TWUL to meet its financing obligations.

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

### ***Counters Creek***

TWUL has a performance commitment in AMP6 agreed with Ofwat to deliver a £280m sewer flooding scheme in the Counters Creek area of West London (in the London Borough of Hammersmith and Fulham and in the Royal Borough of Kensington and Chelsea) that will alleviate approximately 1,700 properties from the risk of sewer flooding following heavy rainfall.

The project consists of a 5km long strategic sewer, 4m in diameter, a series of local sewer upgrade schemes, installation of a number of individual flood protection measures (FLIPS) and a sustainable urban drainage (SuDS) scheme.

If the Counters Creek project is cancelled, for reasons within TWUL's control, TWUL could be subject to a maximum penalty of £162m.

If the Counters Creek project is cancelled, for reasons outside TWUL's control, the penalty would be limited to the allowed costs that have been avoided through non-delivery of the scheme. This would lead to a maximum penalty of £129m, however the net impact on TWUL of such cancellation should be zero, as the penalty only extends to allowed costs which have not been incurred by TWUL prior to such cancellation.

An additional penalty that is outside the overall cap on rewards and penalties has been included relating to delays to the Counters Creek scheme. In the event that the entire scheme is not delivered by 2019-20, but will be delivered in a future AMP, then a penalty of £6.9m would be applied in 2019-20, and each subsequent year that the scheme is not delivered.

An application for planning permission for the proposed scheme will be made in December 2015 and the project is currently planned for construction, completion and operation by 31 March 2020.

Whilst delivery of the Counters Creek outputs are challenging, the Wastewater totex programme was funded in the 2014 Final Determination to deliver the performance commitments, which include Counters Creek. Engagement with the eight<sub>2</sub>O Alliance began on this prior to the beginning of AMP6 to help mitigate against the risk of delays.

### ***TTT Interface Works***

For the AMP6 Period, there is a specific ODI under which TWUL has committed to limit the extent of delays on the overall TTT Project timeline, in particular the completion of category 2 and 3 works (design, survey, enabling and construction) and timely availability of sites to the IP (see Chapter 5B “*Description of the TTT Project proposed delivery model*” under “*Part 4 – Impact on TWUL of the IP delivery model – TWUL Works*” for further details). The maximum penalty is £156.4m applied against the RCV.

## **Retail**

### ***AMP6 Customer Service***

Customer service is a high priority for both TWUL and Ofwat and is measured by the Service Incentive Mechanism across each AMP. Although SIM performance has been improving towards the end of AMP5, TWUL suffered a penalty of £84m for the AMP5 Period in the 2014 Final Determination (in 2012/13 prices – this number will not be finalised until the end of the AMP6 Period, as revenue is linked to RPI each year, and so the actual penalty may be in the region of £95m). The SIM will continue in the AMP6 Period, with the reward or penalty based on comparative performance for the four year aggregate period of 2015-16 to 2018-19. Ofwat has set out that the financial incentives will range from a maximum reward of 6 per cent. of Retail Household revenues to a maximum penalty of 12 per cent. of Retail Household revenues (in total over AMP6). This is broadly similar to the +0.5 per cent. to -1.0 per cent. of appointee revenue for SIM in AMP5.

Any reward or penalty is expected to be factored into funding for AMP7. TWUL has allocated funding to specific activities to drive an improved SIM performance for AMP7, to mitigate this risk.

### ***Bad Debt and Non-recovery of Customer Debt***

Non-recovery of customer debt is a risk to TWUL and would cause TWUL's profitability to suffer. This risk is exacerbated by the provisions of the WIA, which prohibit 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. Allowance is made by Ofwat in the price limits at each Periodic Review for a proportion of debt deemed to be irrecoverable.

Additionally in the AMP6 Period, customer bills will include revenue collected on behalf of the IP for the TTT Project (although there will be no separate bills and there will be no separate itemisation of the revenue collected on behalf of the IP in customers' bills). The increase in customer bills may affect TWUL (and TWUL's costs) by increasing bad debt, resulting in higher collection costs related to existing commercial arrangements with local authorities, housing associations and other water companies, resulting in time in a greater degree of customer dissatisfaction.

There is also a risk that customers may refuse to pay TWUL the increased costs which TWUL is charging in order to enable the IP to implement the TTT Project (although these increased costs will not be itemised separately on TWUL's customers' bills). This could materially increase the risks to TWUL that are associated with bad debt.

### ***Open Water Market Readiness***

Open Water's Market Architecture Plan (“MAP”) advises companies preparing for business retail market opening to ensure that they meet competition and level playing field requirements. Exactly how companies should go about this has, however, been left up to individual companies. As with PR14, Ofwat intends to place the responsibility on the board of directors of companies to offer appropriate assurance concerning compliance with the new market framework. Where this assurance is not in place, Ofwat has stated that it will regulate companies differently to ensure that the customer interest is protected. Ofwat is

expected to continue to pursue its casework strategy, and to take targeted action where appropriate. Non-compliance in these areas could result in the imposition of financial penalties of up to 10 per cent. of TWUL's entire regulated turnover.

### ***Systems***

Retail Household are committed in the AMP6 final determination to the procurement, design and implementation of a new Customer Relationship Management & Billing system ("CRMB"). This is anticipated to deliver improvements across the Retail Household business including improved customer service and debt management and is required to 'go live' by the end of year 4 in the AMP6 Period.

Failure of the system to 'go live' will incur a penalty of £6.5m in each of years 4 and 5 of the AMP6 Period, based on the annualised benefit value to customers. In addition, an ODI penalty of up to a maximum of the allowed 2015-20 cost (depreciation charge net of operational expenditure savings, which is equal to £18.6m) plus a 10% premium to ensure that TWUL has an incentive to deliver the system, resulting in a maximum penalty of £20.5m.

Implementing a new billing system also has a number of inherent risks, both financially (in terms of revenue collection, the costs of establishing and implementing the CRMB and any cost overruns) and reputationally (if the accuracy or timing of customer bills is affected).

## **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, Natural England, Environment Agency, DWI and other regulators, could have an adverse effect on the business, operational performance, profitability or financial condition 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 CMA, the CMA determines that (i) the existing Licence operates against the public interest; and (ii) that those adverse effects could be remedied or prevented by modifications of the Licence. Modifications could also result from a decision on a merger or market investigation reference by the CMA. In addition, the Secretary of State has a power to veto certain proposed modifications agreed by Ofwat and TWUL. Other proposed modifications agreed by Ofwat and TWUL may be vetoed if it appears to the Secretary of State that the modifications should only be made, if at all, after a reference to the CMA. Finally, primary legislation can create powers for the making of modifications by Ofwat without the consent of Regulated Companies. Section 55 of the Water Act 2014 provides for modification of a licence where necessary and expedient as a consequence of amendments made under the Water Act 2014 (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" below).

### ***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 result in an Enforcement Order or the imposition of financial penalties of up to 10 per cent. of TWUL's entire regulated turnover, which 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. Failure by TWUL to comply with any Enforcement Order (as well as certain other defaults) may lead to the making of a Special Administration Order (see Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*”) which could also have an adverse impact on TWUL.

### ***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 supply 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***

The Water Act 2014 became an Act of Parliament on 14 May 2014 (although not all of its provisions are in force yet) and will introduce retail competition for water and sewerage services to all non-household customers in England from 1 April 2017. TWUL is expected to be ready to comply with new retail market arrangements by 1 April 2017 but would face a range of as yet unspecified regulatory penalties if it were not. Increased retail (and other) market activity and the introduction of new suppliers within TWUL’s Water Region and Sewerage Region will increase the risk for TWUL that Ofwat will use its powers under the Competition Act to investigate and prohibit anti-competitive practices and abuses of a dominant position in order to ensure a level playing field in the industry. Ofwat has previously taken steps to introduce competition into the water supply and sewerage industry via the inset, new appointment and variation (“NAV”) and the WSL regime.

### ***Inset (NAV) appointments***

As further described in Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*”, appointments via the inset (NAV) regime 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. Appointments within this market may give rise to a potential material adverse impact with TWUL facing increased competition for customers and the provision of services as a result of inset appointments affecting its Water Region and Sewerage Region.

Since July 2009, 17 new appointments supplying around 21,000 properties have been granted to newly appointed companies within TWUL’s region. Further appointments may be made in the future.

### ***WSL Regime, the WIA and the Water Act 2014***

The Water Act 2003 amended the WIA and introduced a water retail and water commodity market, known collectively as the “Water Supply Licensing” regime or WSL. This market allows non-household customers who use a specified minimum number of megalitres of water per annum at specific premises to

choose their water supplier. The ability of customers to obtain their water and sewerage services from a different supplier could adversely affect TWUL's turnover, which could adversely affect TWUL's business, operational performance, profitability or financial condition. There are currently nine holders of water supply licences who compete against the existing incumbents in the market under this system. As at the date of this Prospectus, TWUL has contracts with two water supply licensees.

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 five megalitres per annum. The Water Act 2014 has introduced several changes to facilitate expansion of the market for competition in the non-household retail services water sector including a power for the Secretary of State to repeal the WSL threshold for non-household consumers and to extend the scope to include sewerage services in the market. The Secretary of State is expected to exercise this power, effectively reducing the threshold level to 0 megalitres in April 2017. Such a change in threshold would result in an increase in the number of TWUL's customers who would be able to choose their water supplier from approximately 6,000 today to all 250,000 of TWUL's non-household customers. Only the retail margin applied on revenues is at risk from increased competition. Ofwat has set an allowed margin of 2.5 per cent. for Retail Non-Household customers in its 2014 Final Determination, as defined below in Chapter 5A "*Description of the TWU Financing Group*" under "*Economic regulation*".

Additionally, as described above, TWUL is now structured into four separate business units as of 1 April 2015. These organisational changes also reflect the separate price controls set up by Ofwat for these business units. Market compliance requirements may require further organisational change and may also entail significant alterations to systems. TWUL is able to mitigate the risk through its preparations for market change. However, there remains a risk that systems may not be adequately developed in time. A failure to comply with the requirements enabled by the Water Act 2014 could result in a market investigation or referral to the CMA which could impose changes to the company's structure, leading to a breach of covenant.

## **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 TWUL and, consequently, 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 controls established 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*".

With effect from 22 July 2013, TWUL's Instrument of Appointment was modified to introduce a number of changes which will apply to price controls from 1 April 2015. In particular, there are now separate wholesale water and wastewater price controls and both are linked to RPI plus or minus K (in line with current methodology). There are also separate Retail Household and Non-Household price controls and these are linked to a new method for calculating price caps based on the average cost to serve and average cost per customer type (default tariff), respectively. The new method is set out in "*Setting price controls*



for 2015-2020 – final methodology and expectations for companies’ business plans” (the “Ofwat Final Methodology”) and is in line with the licence modifications set out above (see Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*”). The TWUL Instrument of Appointment was further modified with effect from 8 December 2014 to enable a separate price control to be determined (for the AMP6 Period only) in respect of TWUL’s sewerage services for the TTT Project, being the services set out in the Preparatory Work Notice (that TWUL is either required to provide, or that TWUL is permitted to provide and has agreed to provide). Both sets of modifications were reflected in the 2014 Final Determination.

In the 2014 Final Determination, Ofwat sets out its views on the appropriate allowed return for wholesale activities, retail margins and range for out and under performance for the AMP6 Period. For further details see Chapter 5A “*Description of the TWU Financing Group*” under the sub-heading “*Economic Regulation*”. TWUL has accepted the 2014 Final Determination.

Although, amongst other primary duties, Ofwat has a duty to exercise and perform its powers and duties in the manner it considers is best calculated to 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 and insufficiently accurate turnover forecasts. In addition, unforeseen financial obligations or costs may arise after a Periodic Review (for example, as a result of ensuring regulatory compliance or changes to legislation or regulatory requirements) 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.

#### ***Performance commitments and incentives***

For the five-year AMP6 Period, TWUL has agreed to a number of commitments in relation to its operational performance (‘performance commitments’) in wholesale water, wholesale wastewater, the Thames Tideway Tunnel and household retail. Actual performance against these commitments will increase or decrease revenues where commitments have financial penalties associated with underperformance or rewards for outperformance (outcome delivery incentives, “ODIs”). These incentives will be monitored during the AMP6 Period and will apply to revenues and the RCV from 1 April 2020.

The financial incentives by performance commitment are set out in Chapter 5 “*Financial ODIs*”.

The ODIs in AMP6 mean that TWUL faces material risks of penalties from operational underperformance as well as opportunities for rewards for outperformance. Whilst the maximum scope of penalties (£1,280m, in 2012-13 prices) outweighs the maximum scope of rewards (£219m, in 2012-13 prices), TWUL believes that the maximum penalty represents an extreme scenario, with actual penalties likely to be significantly lower for any reasonable range of operational underperformance. Furthermore, TWUL believes that about £580m of the maximum penalty would arise from the non-delivery of specified capital projects, where the cost savings would mostly offset these incentive penalties. If incurred, the majority of penalties (£807m) would be levied through an adjustment to revenue. The remainder, £473.1m, would be levied through an adjustment to RCV for the AMP7 Period.

#### ***PR14 Reconciliation Rulebook***

On 26 March 2015, Ofwat published a consultation on the PR14 reconciliation rulebook (see Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales — Economic Regulation — PR14 Reconciliation Rulebook*”). Within the consultation, Ofwat has published a revised CIS RCV adjustment calculation. This RCV calculation differs from that accepted in the 2014 Final Determination, and would result in a £249m (in 2012/13 prices) reduction in TWUL’s opening RCV from 1 April 2020.

Ofwat has invited companies to respond to its consultation. TWUL has responded to Ofwat's invitation, stating that TWUL believes that stability and transparency in the regulatory process is important to keep the cost of capital at appropriate levels and that this would be in the best interests of both investors and customers. However, an amendment to Ofwat's reconciliation process, which could result in a lower RCV for TWUL, is a significant risk which could adversely affect TWUL's business, operational performance, profitability or financial condition.

## **TWUL Operational Risks (non-Business Unit Specific)**

### ***Changes in the rate of inflation***

TWUL's wholesale turnover from April 2015 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.

Growth in RCV is explicitly linked to the Retail Price Index, therefore a prolonged period of low inflation and/or deflation would increase the risk that TWUL may breach its financial covenants in relation to Class A RAR, Senior RAR and/or Conformed Senior RAR.

### ***Changes in the specified inflation index***

In 2013, the UK Statistics Authority (the "Authority") commissioned Paul Johnson (director of the Institute for Fiscal Studies) to review the UK consumer price statistics. Paul Johnson's report, published on 8 January 2015, recommended that the Office for National Statistics ("ONS") should move towards making "CPIH" (a measure of CPI inflation including housing costs) its main measure of inflation. It was recommended that Government and regulators should move towards ending the use of RPI as soon as practicable, and publicly set out reasons where they decide to keep using RPI; the Authority should look to phase out production of RPI, in consultation with users; and the Authority and ONS should publish more information annually on prices and costs faced by particular groups of households. The Authority will consult on the report's recommendations in summer 2015, and make a final response later in 2015.

The implication of the report's recommendations is that Ofwat may choose to move from RPI to an alternative measure of inflation (e.g. CPI or CPIH) in determining future regulated prices after the AMP6 Period. This could have financial risks for the company in terms of RCV and revenue growth.

### ***Targeted price controls***

In line with its work on upstream market reforms and introducing competition, Ofwat is considering implementing separate, targeted price controls for elements of the wholesale business after the AMP6 Period, for example, separate price controls for water abstraction, and sludge treatment and disposal and may include non-binding sub-controls for these elements during the AMP6 Period. In setting separate controls, Ofwat will need to consider the method for allocating the RCV between different controls, potentially leading to unbundling of the RCV, which for the purposes of the 2014 Final Determination has been allocated wholly to Wholesale water and wastewater. This could lead to risks around the elements of unbundled RCV, where these parts of the business become open to wholesale competition in future.

## **Risk arising from the Thames Tideway Tunnel**

### ***General***

Implementation of the TTT Project by TWUL poses significant financial and operational risks to TWUL together with significant and unquantifiable exposure to third party liabilities. Accordingly, TWUL is currently conducting a public procurement for the TTT Project to be delivered, designed, constructed,

owned, operated and financed by a new private company, the IP. The infrastructure provider model was developed following extensive discussions with Defra, Ofwat and Infrastructure UK within Her Majesty's Treasury which resulted in all parties concluding it was the most appropriate model to finance and deliver the TTT Project.

The delivery model is being conducted pursuant to the SIP Regulations so that the TTT Project can be delivered in a way which will ensure TWUL is insulated from the majority of the risks (for example, design and construction risk) relating to the TTT Project. The SIP Regulations set out a new regulatory framework which allows large and complex projects to be carried out by a separate infrastructure provider to isolate risks from existing water and sewerage undertakers.

The TTT Project was specified pursuant to the SIP Regulations on 4 June 2014 so that, effectively, TWUL is prohibited by law from undertaking the TTT Project, except for certain works, services and activities of a preparatory nature.

### ***Risk to TTT Delivery Model Process***

The statutory and contractual structure for the delivery of the TTT Project is described in the section entitled "*Description of the TTT Project*". A number of items remain outstanding: (i) the contractual documents in respect of the TTT Project have not yet been entered into; (ii) final approvals, authorisations and consents have yet to be given, or, in the case of the Development Consent Order, has been granted but is the subject of ongoing judicial review proceedings; and (iii) the IP is in the process of being procured, but has not yet been designated or granted a project licence. Any one of these elements not occurring could mean that the TTT Project is not delivered as described in the section entitled "*Description of the TTT Project*".

Following the award of the IP Project Licence, items (i) and (iii) listed in the paragraph above would no longer remain outstanding.

Following the specification of the TTT Project on 4 June 2014, the IP Procurement commenced on 10 June 2014. The Development Consent Order was granted on 12 September 2014.

### ***Risk associated with the completion of the IP Procurement***

The Final Determination provided £22.0m (in 2015/16 prices) to fund development activities between 1 July 2015 and 1 November 2015.

If TWUL fails to complete the IP Procurement or it is successfully challenged, there is a significant risk that TWUL's business, operational performance, profitability or financial condition, and its ability to carry out and finance its regulated business, will be materially adversely affected. Consequently, the rating of TWUL and of the Bonds may be downgraded accordingly and there may be a material adverse impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

The risk that TWUL fails to complete the IP Procurement is 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. Furthermore, delays to the IP Procurement may result in TWUL electing to carry out certain resilience activities which were originally within the IP's scope of work, either in accordance with the current Preparatory Work Notice or following an amendment to that notice. The 2014 Final Determination did not include any additional allowance for resilience activities as it is not yet known whether such activities will be required. However, Ofwat did include in the 2014 Final Determination a Notified Item for the reallocation of scope between the IP and TWUL where the appointment of the IP is delayed beyond

1 July 2015, which would allow TWUL to log up at PR19, or to apply for an interim determination in respect of, its reasonable incremental costs (other than development and procurement costs) in electing to carry out additional works originally within the IP's scope of work, subject to certain criteria set out in the 2014 Final Determination. Ofwat also included in the 2014 Final Determination a Notified Item for an unsuccessful IP Procurement for reasons outside TWUL's prudent management control. This Notified Item would allow TWUL to apply for an interim determination, or to log up, in respect of its reasonable costs incurred (applying a 75:25 sharing rate (customers:company) in relation to logging up) after 1 April 2015 associated with conducting a new IP Procurement, subject to certain criteria set out the 2014 Final Determination.

Ofwat also confirmed in the 2014 Final Determination that changes to or the withdrawal of the Preparatory Work Notice or Project Specification Notice would be treated as a Relevant Change of Circumstance for the purposes of an interim determination under the price control for the TTT Project. Any such change would be subject to the statutory process set out in the SIP Regulations, including the requirement for the Secretary of State to first consult with TWUL, among others. Further details of the interim determination process as part of the general regulatory framework are set out in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

### ***Procurement challenge risks***

As noted above, there is also a risk that an aggrieved bidder for any of the relevant procurements challenges the terms on which the procurements for the works and services contracts reasonably necessary to make the IP 'business ready' at the IP Project Licence award have been carried out by TWUL. Any challenge would be likely to involve TWUL in lengthy legal proceedings and claims by aggrieved bidders which may not be fully remunerated under the terms of TWUL's regulatory settlement with Ofwat. If successful, these claims could also have the effect of delaying the IP Procurement, appointment of the main works contractors or the appointment by the IP of the project manager which could in turn delay completion of the TTT Project, or result in TWUL having to fund the development of the TTT Project prior to the appointment of an IP. This risk has been mitigated to some extent by (a) the inclusion by Ofwat in the 2014 Final Determination of £22m (in 2015/16 prices) of allowed expenditure to cover development costs (in line with Ofwat's expected timing of the appointment of the IP) and (b) the Notified Item for reallocation of scope between TWUL and the IP (described above), which Ofwat has confirmed would be available in respect of costs that would otherwise have been incurred by the IP had the appointment not been delayed, subject to the criteria set out in the 2014 Final Determination. The risk is further mitigated by the fact that TWUL has selected the joint venture construction contractors for each of the Main Works Contracts, and no challenges were issued during the 10-day standstill period for the Main Works Contracts. Where no procurement challenges are issued during this standstill period, the contracting entity is permitted to proceed to enter into the relevant contracts.

### ***Enforcement risk***

The IP will have a principal duty (set out in the IP Project Licence) to:

- (a) design, construct, finance, test, commission, operate and maintain the IP regulated assets in accordance with the Project Specification Notice (certain outline design and works of a preparatory nature will be carried out by TWUL in accordance with the Preparatory Work Notice, and where these works ultimately become IP regulated assets, responsibility will pass to the IP from licence award), the IP Project Licence and the Schedule of Scope Baseline Scope Report (Blue Book) annexed to the Interface Agreement so as to achieve Acceptance by a longstop date, and

- (b) from the date of Acceptance, own, finance, operate and maintain the IP regulated assets in accordance with the Project Specification Notice and the IP Project Licence to ensure that the relevant infrastructure is then available for use in conjunction with the sewer network,

such that the London Tideway Tunnels, when completed, are capable of being operated in accordance with the Environmental Permits and Operating Techniques.

If System Acceptance of the TTT Project is delayed past the longstop date, or if the relevant infrastructure is not available for use, this will amount to a breach of the IP Project Licence.

Section 18 of the WIA (as has effect under the SIP Regulations) requires Ofwat to enforce against a company where Ofwat is satisfied that the company:

- (a) is contravening, or is likely to contravene, its own licence or related statutory requirements; or
- (b) is causing or contributing to, or is likely to cause or contribute to, a contravention of another company's licence or related statutory requirements.

The effect of this provision is that, if Ofwat is satisfied that TWUL actions are causing or contributing to (or are likely to cause or contribute to) a contravention of the IP Project Licence, Ofwat is required to take regulatory enforcement action against TWUL.

Ofwat's statutory enforcement regime is supplemented by Ofwat's published guidance on enforcement which provides that regulatory enforcement action taken by Ofwat may include informal enforcement measures, such as quarterly reporting and informal undertakings, and/or formal enforcement measures, such as formal undertakings and financial penalties. The final resort is special administration (for breaches so serious that Ofwat considers the licence should be revoked). The enforcement regime which applies to the TTT Project has been further explained in a separate enforcement guidance note issued jointly by Ofwat and the EA for public consultation on 17 November 2014.

The risk of enforcement against TWUL in this scenario is mitigated to some extent by section 19 of the WIA (as has effect under the SIP Regulations), which provides an exemption to the section 18 duty to enforce where Ofwat is satisfied that its statutory duties preclude that enforcement. Relevantly, Ofwat is required by section 2(2A) of the WIA (as has effect under the SIP Regulations) to perform its duties in the manner best calculated to secure that the functions of the company are carried out. The effect of this exemption is that, even where it is satisfied that TWUL's actions have caused a breach of the IP Project Licence, Ofwat is not required to enforce against TWUL if Ofwat considers that to do so would not be acting in the manner best calculated to secure the carrying out of TWUL's functions.

### ***Risks associated with the 2014 Final Determination***

In the 2014 Final Determination Ofwat provided for £405m of allowed expenditure for the TTT Project which was very close to the £404m requested by TWUL in its representations on the draft determination. While the amounts are very similar, there are a number of key differences. In particular, TWUL's representation on the draft determination proposed a broad uncertainty mechanism which Ofwat rejected in favour of a suite of narrower uncertainty mechanisms combined with an allowance for an additional £22m (in 2015/16 prices) of expenditure for potential delays in the appointment of the IP. The 2014 Final Determination therefore leaves some exposure for TWUL to cost overruns and other risk factors which are set out separately in this Chapter. The risks are mitigated by a suite of regulatory mechanisms as set out below:

- land costs are dealt with on a no pain and no gain basis (whereby both gains and losses arising from acquisition, rental or disposal of TTT Project land are not of benefit to, or borne by, TWUL, but are instead passed to customers);

- normal cost overruns are subject to a totex sharing mechanism under which TWUL is exposed to 50.72% of any cost overrun;
- a bespoke materiality threshold of 10% of the RCV for the price control for the TTT Project applies in respect of notified items and relevant changes of circumstance;
- the application of a bespoke triviality threshold, rather than a materiality threshold, for logging up claims;
- a notified item is provided for reallocation of scope, subject to requirements such as a materiality and triviality threshold;
- a notified item is provided in the event that the IP Procurement is unsuccessful for specified circumstances outside of TWUL's control; and
- Ofwat has confirmed that it expects that changes to the Preparatory Work Notice or Project Specification Notice will be treated as a Relevant Change of Circumstance.

### ***Risks associated with the DCO***

On 12 September 2014, TWUL was granted the Development Consent Order in respect of the TTT Project by the Secretaries of State for the Departments of Environment, Food and Rural Affairs and Communities and Local Government.

On 12 March 2015, a Correction Order was made by the Secretaries of State in respect of correctable errors in the DCO, as a result of which the DCO has been formally amended. On 17 March 2015, the Marine Management Organisation issued a Notice of Variation in respect of the deemed marine licence contained within the DCO. This notice made a number of non-material changes to the deemed marine licence that had been previously agreed as necessary with the Marine Management Organisation. No legal challenges or appeals have been made to the Correction Order or the Notice of Variation.

The Secretaries of State received four applications for judicial review in respect of their decision on 12 September 2014 to grant the DCO from the following claimants: (i) the London Borough of Southwark; (ii) Thames Blue Green Economy; (iii) Blue Green London Plan; and (iv) David Percival. TWUL is an interested party in respect of all four claims.

These applications were all refused permission to apply for judicial review by the High Court on 15 and 16 January 2015.

Three claimants then appealed the refusal of permission to apply for judicial review. These were (i) Thames Blue Green Economy; (ii) Blue Green London Plan; and (iii) David Percival.

David Percival's appeal was refused on 16 April 2015 and no further action may be taken by Mr Percival. The appeals of Thames Blue Green Economy and Blue Green London Plan are still being considered by the Court of Appeal.

There is a risk that the Court of Appeal will grant permission to apply for judicial review to one or more of the remaining claimants as a result of these appeals. In the event that permission to apply for judicial review were granted, there is a further risk that the Court may either refer the decision on the application for development consent back to the Secretaries of State or quash the DCO following the substantive hearing of the claim or claims. In either case there would be delays to the TTT Project, and if the DCO were to be quashed by the Court, then the delays to the TTT Project would be significant. Any such delays may result in TWUL having to bear additional costs from its own resources or to fund compensation to third parties which is in excess of the regulatory settlement allowed by Ofwat, resulting in cash flow

issues for TWUL unless and until such costs can be logged up at (and recoverable following) a subsequent periodic review.

### ***Reputational risks***

The delivery model will result in the delivery of the TTT Project being carried out by the IP. However, due to the consultation process and the planning processes carried out by TWUL in advance of the appointment of the IP, and due to the fact that London customers are accustomed to receiving their bills from Thames Water, there is a risk that delays and problems during construction will be considered to be the delays and defaults of TWUL. This could lead to adverse publicity and increases in customer complaints for matters for which TWUL is not responsible under contract, regulation and/or statute. This will be mitigated by customer care operatives who are trained to identify whether complaints relate to TWUL or IP works, and allocate responsibility accordingly.

### ***Bad debt risk***

The calculation of the IP's allowed revenue under the IP Project Licence could allow for annual increases in the revenues due to the IP, which in turn will feed through to annual increases on TWUL customers' bills (although there will be no separate bills and there will be no separate itemisation of the revenue collected on behalf of the IP in customers' bills). TWUL will have no control over such increases and these will feed through automatically to TWUL charges to customers. This could result in the charges to customers increasing more rapidly than has previously been communicated to customers not due to any fault on the part of TWUL, but instead due to the way in which the IP manages the TTT Project and is entitled to its allowed revenue under the IP Project Licence.

These potential increases in customer charges could materially increase the risks to TWUL that are associated with bad debt.

### ***Operational risk***

There are a number of operational risks to TWUL arising from the TTT Project which are summarised below. These include (to the extent not covered by the asset protection agreement between TWUL and the IP, the indemnities given to TWUL by the IP in the Interface Agreement and O&M Agreement or insurance):

- (i) damage caused to TWUL's network by, or as a result of, the IP Works, causing TWUL to incur additional costs to repair the damage;
- (ii) damage to existing pumping station assets and/or disruption to the normal operation of TWUL systems during the duration of the IP Works caused by the IP and its contractors, causing TWUL to incur additional costs and reputational damage;
- (iii) exposure of the sewerage system to the atmosphere during construction or operation, resulting in additional odour/nuisance complaints from third parties, causing TWUL to receive complaints and requests for compensation from third parties;
- (iv) failure to maintain existing CSO functionality during the duration of the IP Works, causing potential upstream flooding and additional river discharges, resulting in claims against TWUL for damage to third party property and environmental damage, including enforcement action by the EA;
- (v) collapse of/damage to a TWUL strategic asset as a result of IP Works causing damage to third party assets and claims made against TWUL in respect of such third party damage;
- (vi) multiple downstream diversions or possessions reducing system capacity and potentially leading to backing-up and flooding of upstream interception works or catchments, resulting in claims against

TWUL for damage to third party property and environmental damage, including enforcement action by the EA;

- (vii) removal of bulkhead and installation of secondary tunnel lining at the Lee Tunnel interception point exceeding the EA-approved shut down of the Lee Tunnel and extending the time that the Abbey Mills CSO discharges to the river, resulting in enforcement action by the EA; and
- (viii) potential siltation of existing CSOs which would not be used as frequently following construction (due to reduced discharges into the Thames), potentially resulting in additional operation expenditure and/or capital expenditure requirements.

### ***Costs overruns/construction risk in relation to TWUL***

There is a risk that the sums allowed in the 2014 Final Determination for the TWUL Works, including the Enabling Works and Interface Works, are less than the amount necessary to carry out the works due to delays and disruption to the works being caused by the IP Works, resulting in TWUL having greater capital expenditure than previously envisaged. To mitigate against the risk of disruption or delay (and associated cost increases) resulting from interfaces between the IP Works and TWUL Works, TWUL, the IP and the Main Works Contractors will enter into an Alliance Agreement (see further Chapter 5B *“Description of the TTT Project proposed delivery model”* under *“The Alliance Agreement”*) whereby all parties are financially incentivised to perform their respective obligations on time and on budget. The financial impact on TWUL of cost overruns may also be mitigated by the totex sharing mechanism (see *“Risks associated with the 2014 Final Determination”* above). Additionally, TWUL will have a dedicated team working with the IP delivery team working to ensure knowledge transfer and the co-ordination of activities.

### ***Design risk***

The specification for the TTT Project and the hydraulic design has been developed by TWUL, with input from the EA on the modelling of future flows and approval of the CSOs which are to be intercepted, actively managed or impacted by the new sewer system. In a letter to TWUL dated 4 July 2012, the EA has confirmed its satisfaction that the Thames Tideway Tunnel, the Lee Tunnel and improvements to London’s sewage treatment works, if constructed and designed in accordance with the specification, *“will control CSOs to a level that is compliant with the [Thames Tideway Strategic Study (published in 2005)] and in so doing [limit] pollution from CSOs and thereby [meet] the requirements of that part of the UWWTD”*. The EA has further confirmed in a report dated October 2013 that, if and to the extent the TTT Project performs as modelled and with *“output from the compliance test procedure [showing] that up to 4 spills from CSOs [per year] take place with the tunnel option”*, the TTT Project will be *“deemed to satisfy the requirements of the UWWTD (to collect spills under normal conditions)”*.<sup>1</sup> Under the contractual structure developed for the TTT Project, the IP is expected to acquire all liability for the specification and hydraulic design as if it had developed such design itself. However, there is a risk that the IP and contractors do not develop the detailed design of the TTT Project in accordance with the specification and the system cannot be operated in accordance with the Environmental Permits, and a third party or the EA enforces against TWUL in respect of the breach of the Environmental Permits. In the event that the design inputs agreed with the EA and stakeholders are incorrect, resulting in a constructed output that is incapable of meeting the Environmental Permits, modifications may be required to TWUL’s existing network, subject to further agreement with the EA and stakeholders. The costs of any such modifications may not be fully recoverable from TWUL’s customers under TWUL’s regulatory regime.

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<sup>1</sup> p.10, *An assessment of evidence on Sustainable Drainage Systems and the Thames Tideway Standards. A report by the Environment Agency for the Department for Environment, Food and Rural Affairs*. Final October 2013.



### ***Service standards***

On 1 April 2010, Ofwat introduced a performance assessment called the Service Incentive Mechanism. It is based on two customer experience measures, namely a quantitative measure based on the number of complaints and unwanted contacts an undertaker receives and a qualitative indicator measuring how satisfied customers are with the quality of service they receive, based on a survey of customers who have had direct contact with their undertaker. These two measures aim to capture both the number of times a company fails to meet the expectations of its customers, and the experience of those customers. The SIM is designed to provide an incentive for companies to deliver the level of service their customers want by using SIM scores as a basis for adjusting price limits. Poor performance in AMP6 is expected to be subject to a maximum penalty of 12% of the household retail revenue (approximately 1% of the total appointed revenue).

Pursuant to the terms of the TWUL Licence, TWUL will continue to be responsible directly to customers for its services. There is a risk that complaints raised against the performance of the TTT Project will adversely affect the annual assessment of service by the undertakers. However this risk is partly mitigated by the customer and stakeholder communication protocol scheduled to the Interface Agreement, which provides a framework for ensuring that all customer communications are dealt with appropriately by TWUL and the IP.

### ***Discontinuation, De-specification, De-designation or IP special administration***

In certain circumstances following the appointment of an IP, either the IP or the TTT Project could face difficulties and ultimately fail. There are five possible scenarios where the IP or the TTT Project could fail:

- (a) special administration of the IP;
- (b) discontinuation of the government contingent financial support (“Discontinuation”);
- (c) revocation of the Project Specification Notice (“De-specification”);
- (d) revocation of the designation of the IP (with no replacement IP being appointed) (“De-designation”); or
- (e) revocation of the IP Project Licence.

The IP may not be required to complete the TTT Project in the event of scenarios (b)-(e). Where the Project Specification Notice has been revoked, TWUL will be required to put forward a proposal which addresses the issue of sewage discharges into the River Thames with a review to securing compliance with the UWWTR, subject to funding by Ofwat. Whilst there are protections for TWUL in respect of the mechanisms that are set out in the new Condition T of the TWUL Licence, there remains a risk that TWUL will suffer reputational damage or additional costs or that it will be unable to agree an appropriate funding mechanism for the new proposal leading to continued delays in the implementation of a scheme to meet the requirements of the UWWTR.

### ***Future amendments to Finance Documents***

As the proposed delivery model for the TTT Project has not received final consents and authorisations, and therefore is subject to change, the STID Proposal dated 22 April 2014 included a requirement for the Security Trustee to consent to future amendments to the Finance Documents to which the Security Trustee is a party if TWUL certifies, *inter alia*, that the amendments are necessary or desirable in order to deliver the TTT Project. Although this is subject to certain creditor protections, including the requirement that TWUL obtains a ratings affirmation (or equivalent) and that the relevant amendment, modification, waiver and/or consent does not give rise to a Default or (as certified by TWUL) a Material Adverse Effect, a

change in the parameters of the TTT Project may nevertheless result in the Security Trustee being obliged to agree amendments, modifications, waivers and/or consents in respect of the Finance Documents to which the Security Trustee is a party without the specific approval of Secured Creditors.

Because the procurement of the TTT Project continues, (see “*Risk to the TTT Delivery Model Process*” above) there can be no assurances that the TTT Project will be implemented in the manner described herein or that further amendments, modifications, waivers and/or consents will not be required to the Finance Documents. The implementation of any future proposed amendments, modifications, waivers and/or consents to the Finance Documents may (subject to the above) mean that the Security Trustee is obliged to consent to such amendments, modifications, waivers and/or consents, even though they cannot currently be anticipated and notwithstanding that Bondholders or other Secured Creditors may not necessarily agree with such future changes once they have been identified.

### ***Tax risks in relation to the TTT***

As described in more detail in the section headed “*Tax Impact*” in Chapter 5B, TWUL has received advice that in consequence of the nature of the arrangements for the recovery of the IP Charges from customers, the charging arrangements between the IP and TWUL and the anticipated accounting treatment of those arrangements, implementation of the TTT Project is likely to result in an increase in the UK corporation tax liabilities of TWUL during the period prior to Acceptance. TWUL estimates this incremental tax liability to be approximately £86 million (based on anticipated IP Charges of £431 million in that period). This estimate has been calculated on the basis of prudent assumptions as to the tax treatment of TWUL. This additional amount is unlikely to result in additional cash tax payments due to the use of tax losses and consequently Ofwat has not provided any funding for the tax liability during the AMP6 Period as it only provides funding for cash tax payments. It is possible that the incremental tax cost to TWUL could be greater or less than the amount included in TWUL’s charging settlement, to the extent that actual IP Charges differ from their expected amount (for example, because of the IP’s credit rating being lower than anticipated or the IP incurring greater expenditure than expected over this period). Consequently, it is possible that implementation of the TTT Project could result in additional corporation tax liabilities for TWUL which, if they translated into cash tax payments, would not be fully funded through the charges it makes to customers, which could have a negative effect on the financial position of TWUL.

TWUL has modelled the effect of different IP Charges on its corporation tax position, based on a range of scenarios and believes that the potential incremental tax cost for TWUL in connection with the TTT Project for which TWUL is not funded through customer charges, in all realistic scenarios, is unlikely to be a material amount over the period 2016 to 2020.

The arrangements between TWUL and the IP in relation to the land on which the TTT Project will be situated are yet to be finalised. The parties intend to work together to ensure that those arrangements are structured, so far as possible, so as to minimise any associated tax costs and it is anticipated that confirmation from Her Majesty’s Revenue and Customs as to the appropriate tax treatment has been sought. However, it is possible that incremental tax costs to TWUL could arise as a result of these arrangements. Any unfunded tax costs to TWUL arising from the land arrangements with the IP could have a negative effect on the financial position of TWUL.

In addition, changes in applicable tax laws or tax rates or in applicable accounting practice could result in changes to the anticipated accounting and/or tax treatment of TWUL in relation to the TTT Project. This could result in additional unfunded tax costs, which could have a negative effect on the financial position of TWUL.

## 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*"). 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 European Community dimension for the purposes of the European Union Merger Regulation (Regulation 139/2004), would require consultation with Ofwat and would be reviewable by the CMA 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 Considerations***

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. Because of 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, 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 European Court of Justice (the “ECJ”) in its judgment of 18 October 2012 found the UK to be in breach of its obligations under the UWWTD partly in respect of 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 Obligors to meet their obligations (including the payment of principal and interest) under the Bonds.

### **Financing Considerations**

#### ***High Leverage***

TWUL’s indebtedness is substantial in relation to its RCV. As at 31 March 2015, Senior RAR was 80.1 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.

#### ***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.

Whilst 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). In this respect it should be noted that, as described in Chapter 5 "*Description of the TWU Financing Group*", TWUL has, with Ofwat consent, made intercompany loans to its parent TWH. The loans are due to be repaid by TWH in 2037 (or any other date agreed between the parties) and are a material asset to TWUL. Should TWH be unable to repay the loans, this could have a material effect on TWUL's ability to meet its obligations to secured creditors.

### ***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.

#### ***Insolvency proceedings and subordination provisions***

Following a number of actions (one of which remains stayed) in the U.S., there is uncertainty as to the validity and/or enforceability in the U.S. of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor (so called "flip clauses"). Such provisions are similar in effect to certain of the terms which are included in Schedule 11 (Cash Management) to the CTA in particular with respect to the subordination of payments to a Hedge Counterparty (see Chapter 7 "*Overview of the Financing Agreements – Cash Management – Debt Service Payment Account*").

In general, if a subordination provision included in the Finance Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales (where the U.K. Supreme Court has upheld the validity of a flip clause) and any relevant foreign judgment or order was

recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Bondholders, the market value of the Bonds and/or the ability of an Issuer to satisfy its obligations under the Bonds.

### ***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 Capital Considerations; CRD IV***

Bondholders should consult their own advisers as to the effect on them of the application of the CRR and CRD IV as implemented by their own regulator, to their holding of any Class of Bonds. The CRR and CRD IV have applied since 1 January 2014 and include amendments to the EU regulatory capital regime for credit institutions and investment firms. These amendments could result in certain investors being subject to additional regulatory capital obligations. These regulatory capital obligations would vary depending on the type of investor and the jurisdiction in which they are regulated. Investors should be aware that such regulatory capital 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. Each 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 any changes to risk-weighting which may result for investors from the introduction of the CRR and the adoption of the CRD IV 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 or Drawdown Prospectus) 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. 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, neither the Issuer nor any Guarantor is 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.

### ***Foreign Account Tax Compliance Act (“FATCA”) withholding may affect payments on the Bonds***

Whilst the Bonds are in global form and held within Euroclear and Clearstream, Luxembourg (together, the “Clearing Systems”), in all but the most remote circumstances, it is not expected that the reporting regime and potential withholding tax imposed by Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 (“FATCA”) will affect the amount of any payment received by the Clearing Systems (as described in Chapter 10 “*Tax Considerations*” under “*Foreign Account Tax Compliance Act (“FATCA”)*”). Further, non-U.S. financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an “IGA”) are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make on securities such as the Bonds. However, if FATCA withholding were relevant with respect to payments on the Bonds, FATCA could affect payments made to custodians or intermediaries (including any clearing system other than Euroclear or Clearstream, Luxembourg) in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also could affect payments to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose their custodians and intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA, including any legislation implementing intergovernmental agreements relating to FATCA, if applicable), and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Bonds as a result of FATCA, none of the Issuers, any Paying Agent or any other person would, pursuant to the terms and conditions of the Bonds, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

### ***EU Savings Directive***

EC 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 secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other Member State, except that Austria will 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 it elects 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 Council of the European Union has adopted a Directive (the “Amending Savings Directive”) which amends and broadens the scope of the requirements of the EU Savings Directive described above. The Amending Savings Directive expands the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for the benefit of) (i) an entity or legal arrangement effectively managed in a Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the EU Savings Directive) which indirectly benefit an individual resident in a Member State, may fall within the scope of the EU Savings Directive, as amended. The Amending Savings Directive requires Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The European Commission has published a proposal for a Council Directive repealing the Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also provides that, if it is adopted, Member States will not be required to implement the Amending Savings Directive.

The Issuer is required to maintain a Paying Agent with a specified office in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced to conform to, such Directive. However, investors should be aware that any custodians or intermediaries through which they hold their interest in the Bonds may nonetheless be obliged to withhold or deduct tax pursuant to such laws unless the investor meets certain conditions, including providing any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the EU Savings Directive, as amended.

Investors who are in any doubt as to their position or would like to know more should consult their professional advisers.

### ***Change of Law***

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

### ***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 Standards (IFRS)). This, in turn, may necessitate that the terms of the conditions and triggers referred to above are renegotiated. This may become particularly relevant in the context of the requirement on Regulated Companies to adopt IFRS at the latest for the Financial Year ending 31st March 2016.

## **CHAPTER 2**

### **THE PARTIES**

<b>Issuer</b>	Thames Water Utilities Cayman Finance Limited, an exempted company incorporated under the laws of 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.
<b>TWUL</b>	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 and sewerage 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.
<b>TWUCFH</b>	Thames Water Utilities Cayman Finance Holdings Limited, an exempted company incorporated under the laws of the Cayman Islands with limited liability with registered number MC-196364. TWUCFH is a wholly-owned subsidiary of TWUL.
<b>TWH</b>	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.
<b>TWUF</b>	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.
<b>Parent</b>	Thames Water Limited, a private company incorporated in England and Wales with limited liability (registered number 02366623).
<b>Guarantors</b>	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”. The Bondholders shall, through the Security Trustee, have recourse to the Guarantors, as described in further detail in Chapter 7 “ <i>Overview of the Financing Agreements – Security Agreement</i> ”.
<b>TWU Financing Group</b>	The TWU Financing Group comprises TWH, TWUL, TWUF, TWUCFH and the Issuer.
<b>Thames Water Group</b>	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 plc, Lloyds Bank plc, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc, National Australia Bank Limited (ABN 12 004 044 937), 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 “*Overview of the Financing Agreements*”. The name and a brief description of each current Hedge Counterparty is set out in Chapter 11, “*Description of the Hedge Counterparties*”. 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”).
<b>Secured Creditors</b>	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.)
<b>DSR Liquidity Facility Providers</b>	Certain financial institutions assembled from time to time by the Thames Water Group (each a “DSR Liquidity Facility Provider” and together, the “DSR Liquidity Facility Providers”).
<b>O&amp;M Reserve Facility Providers</b>	Certain financial institutions assembled from time to time by the Thames Water Group (each an “O&M Reserve Facility Provider” and together, the “O&M Reserve Facility Providers”).
<b>Credit Facility Providers</b>	Certain financial institutions assembled from time to time by the Thames Water Group (each a “Credit Facility Provider” and together, the “Credit Facility Providers”).
<b>EIB</b>	European Investment Bank, acting through its office at 98-100 boulevard Konrad Adenauer, Luxembourg-Kirchberg, Grand Duchy of Luxembourg.
<b>Paying Agents</b>	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.
<b>Agent Bank</b>	Deutsche Bank AG, London Branch acts and will act as agent bank (the “Agent Bank”) to provide certain calculation agency services under the Agency Agreement in respect of the Bonds.
<b>Account Bank</b>	National Westminster Bank plc, acting through its City of London office at 1 Princes Street, London (the “Account Bank”).
<b>Cash Manager</b>	TWUL (the “Cash Manager”), or during a Standstill Period, The Royal Bank of Scotland plc (the “Standstill Cash Manager”).
<b>Registrar and Transfer Agent</b>	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.
<b>TWUF Bond Trustee</b>	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 3**

### **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 or Drawdown Prospectus. Words and expressions not defined in this section shall have the same meanings as defined in Chapter 8 “The Bonds”.

<b>Description</b>	Guaranteed Bond Programme.
<b>Programme Size</b>	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.
<b>Issuance in Classes</b>	<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 or Drawdown Prospectus.</p>
<b>Issue Dates</b>	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 or Drawdown Prospectus (each an “Issue Date”).
<b>Distribution</b>	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.
<b>Certain Restrictions</b>	<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 or Drawdown Prospectus may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 (*European Economic and Monetary Union*), as specified in the applicable Final Terms or Drawdown Prospectus.

**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 will be issued on a fully-paid basis and may be issued at an issue price which is at par or at a discount to, or premium over, par, as specified in the relevant Final Terms or Drawdown Prospectus.

**Interest**

Bonds are and will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be interest-bearing and interest is or will be calculated (unless otherwise specified in the relevant Final Terms or Drawdown Prospectus) 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 Drawdown Prospectus, 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 or Drawdown Prospectus.

**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 or Drawdown Prospectus.

**Floating Rate Bonds**

Floating Rate Bonds will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the Relevant Currency governed by an agreement incorporating the 2000 ISDA

Definitions or the 2006 ISDA Definitions (each as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Sub-Class) as set out in the relevant Final Terms or Drawdown Prospectus; or

- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service (being EURIBOR or LIBOR).

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 the Harmonised Index of Consumer Prices (as specified in the relevant Final Terms or Drawdown Prospectus).

#### **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 or Drawdown Prospectus).

#### **Redemption**

The applicable Final Terms or Drawdown Prospectus 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 or Drawdown Prospectus.

#### **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 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 or charges of whatsoever 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 or 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.

## **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).

The securitised assets backing any issue have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the Bonds issued.

## **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 Obligors (e.g. finance leases will be limited to TWUL). Each Authorised Credit Provider is or will be party to the CTA and the STID and may have voting rights thereunder. The 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 TWUL's unfunded operating and maintenance expenses.

## **Listing**

This document has been approved by the Central Bank of Ireland as a base prospectus. Application has also been made to the Irish Stock Exchange for the Bonds issued under this Programme to be admitted to trading on the Irish Stock Exchange's Main Securities Market or as otherwise specified in the relevant Final Terms or Drawdown Prospectus and, except where the context provides otherwise, references to listing shall be construed accordingly, and to be listed on the Official List of the Irish Stock Exchange. The Issuer may not issue unlisted notes. No series of securities will be offered by the Issuer under this Prospectus which are already listed on another stock exchange.

The applicable Final Terms or Drawdown Prospectus will state on which stock exchange(s) the Bonds are to be listed.

## **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 or Drawdown Prospectus.

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"). 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, Conformed Class A Adjusted ICR, Additional Conformed Class A Adjusted ICR, Senior Adjusted ICR, Conformed Senior Adjusted ICR and the Additional Conformed Senior Adjusted ICR for each Test Period (historic and projected); (iii) the calculations of the Class A Average Adjusted ICR, Conformed Class A Average Adjusted ICR, Additional Conformed Class A Average Adjusted ICR, Senior Average Adjusted ICR, Conformed Senior Average Adjusted ICR and Additional Conformed Senior Average Adjusted ICR for the 12 month period ending on such Calculation Date; (iv) the Class A RAR, Senior RAR and Conformed 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.

## 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

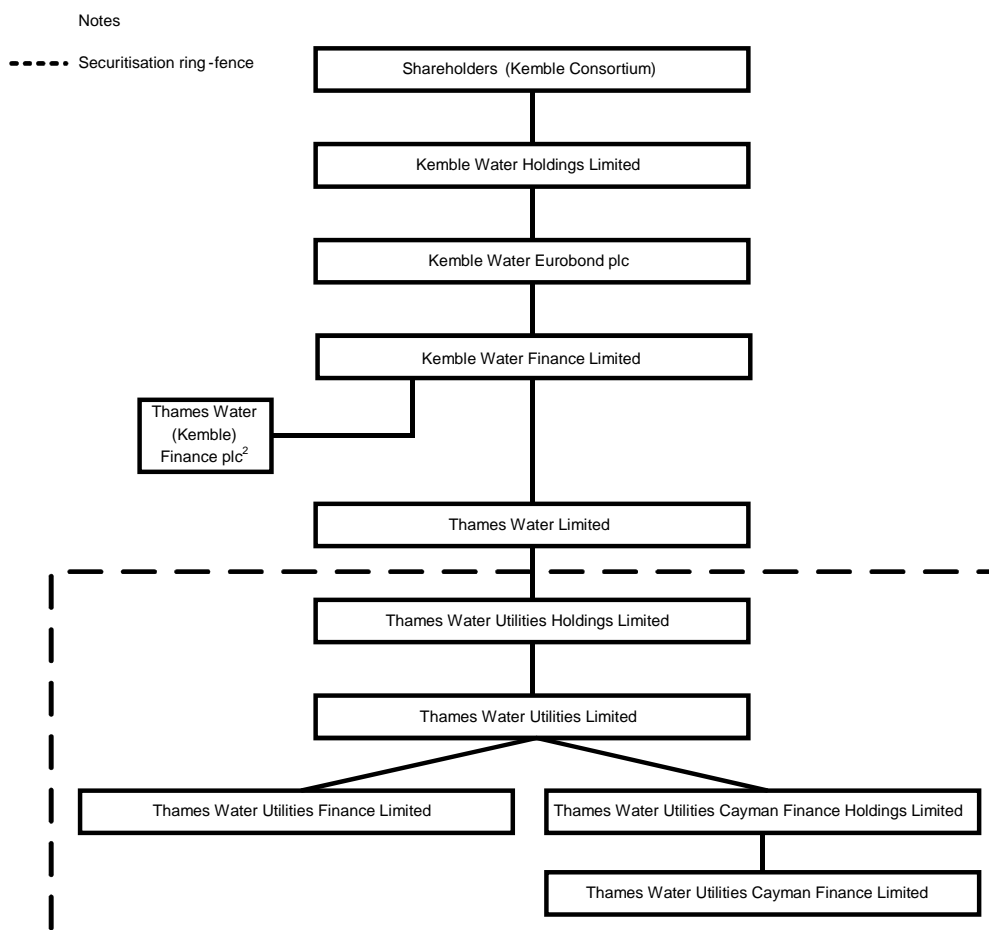
payments under Authorised Credit Facilities of TWUL (including the Issuer/TWUL Loan Agreements and the TWUF/TWUL Loan Agreements), to enable the Issuer and TWUF to meet interest payments on the Bonds and certain other payments ranking in priority to or *pari passu* with the Bonds (excluding any principal 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 5A

### 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.

<sup>1</sup> Thames Water (Kemble) Finance plc is the financing company of Kemble Water Finance Limited, and does not form part of the ownership chain of the TWU Financing Group.

## 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 £11,848.1 million as of 31 March 2015. It forms the principal business of the Thames Water Group.

### **Key Financial Data<sup>2</sup>**

	<b>2014/15</b>	<b>2013/14</b>	<b>2012/13</b>
Turnover (Appointed Business only*)	£1,998.6m	£1,912.5m	£1,758.9m
- Water (Appointed Business only*)	£962.5m	£935.2m	£871.3m
- Sewerage (Appointed Business only*)	£1,036.1m	£977.3m	£887.6m
Operating expenditure	(£1,348.8m)	(£1,300.4m)	(£1,249.2m)
Operating profit	£684.9m	£655.1m	£549.3m
Capital expenditure	£1,375.5m	£1,156.5m	£1,008.2m
Average number of persons employed in the year	4,809	4,682	4,681

*\* Turnover is for the Appointed Business only (defined below). All other figures not marked as Appointed Business only, are the total TWUL figures.*

### **Appointed Business and Permitted Non-Appointed Business**

The Appointed Business comprises the regulated activities of TWUL as defined in Condition A of its Licence. These are activities necessary in order for TWUL to fulfil the function and duties of a water and sewerage undertaker under the WIA.

In addition to the activities of its Appointed Business, TWUL also undertakes certain activities as its Permitted Non-Appointed Business. All of these activities are conducted on an arm's lengths basis from TWUL's Appointed Business. These activities include third-party discharges to sewage treatment works, gravel sales and other commercial activities including property searches and cess treatment (treatment of waste from private receptacles not linked to the network). The results of the Permitted Non-Appointed Business include charitable donations. These donations are considered to be made out of shareholders' interests and are not funded by customers.

### **Capital investment**

Capital investment during the AMP5 Period has been particularly targeted at improving the major sewage treatment sites in London (including Mogden and Beckton) ahead of the construction of the Thames Tideway Tunnel, 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 2014 Final Determination, investment will continue at a high level during the AMP6 Period, and will continue to be targeted at the same broad areas.

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<sup>2</sup> Source: 2014/15 TWUL Statutory Accounts & Regulatory Accounts

### ***Area of Appointment***

Under the WIA, TWUL was 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 (NAV) appointments granted by Ofwat.

TWUL supplies drinking water to circa 9 million customers and withdraws wastewater from circa 15 million customers, serving the equivalent of 23% of the population of England and Wales across a region spanning approximately 5,000 square miles.

### **Thames Water Service Area**



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 tariffs 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. As part of each Periodic Review, Ofwat sets price controls 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 is made by Ofwat.

TWUL submitted its business plan for AMP6 in December 2013, an updated submission in June 2014, and representations on the draft determination in October 2014. Ofwat issued the 2014 Final Determination on 12 December 2014 and this was accepted by Thames Water in January 2015. The 2014 Final Determination contains five separate price controls: three wholesale controls covering water, wastewater and TWUL’s sewerage services for the TTT Project, and two retail controls covering household and non-household customers. In addition, TWUL will include in its customers’ bills an additional charge for the



IP, although there will be no separate bills and there will be no separate itemisation of the revenue collected on behalf of the IP in customers' bills. Prices for the average household customer are expected to decrease by 5 per cent. by 2019-20 (before the IP charges), in line with the national average, and to increase by 3 per cent. when the IP charges are included. These changes reflect £9.6 billion of allowed revenues, £8.4bn allowed expenditure and a wholesale allowed return (cost of capital) of 3.6 per cent. (All amounts and percentages shown in real terms.)

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 more commonly only reflected in the prices set for the next AMP Period.

The general characteristics of Ofwat's revised approach to price controls are described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*". A key feature of the revised approach is the focus on outcomes and ODIs. The six agreed outcomes are described by TWUL as:

- providing a safe and reliable water service that complies with all necessary standards and is available when customers require it;
- providing a safe and reliable wastewater service that complies with all necessary standards and is available when customers need it;
- demonstrating to customers and stakeholders that they can trust TWUL, that TWUL is easy to do business with and that TWUL cares about them;
- limiting TWUL's impact on the environment and achieving a socially responsible, sustainable business for future generations, including reducing levels of leakage;
- providing the level of service customers require, in the most economic and efficient manner, to ensure bills are no more than necessary; and
- offering a choice of easy to use contact options.

These outcomes are supported by 53 performance commitments with financial incentives attached to 27 of these through ODIs. The main financial incentives are summarised later in this chapter under "*Performance commitments and incentives*".

The performance commitments and incentives are set out in detail in the 2014 Final Determination and in particular in the Thames Water company-specific appendix of the 2014 Final Determination.

### ***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 nine years in succession; reduce the number of properties at risk of low pressure to its equal lowest ever level; and achieve industry leading drinking water quality compliance. TWUL has a challenging set of outcomes and performance commitments to deliver for the AMP6 Period, and will need to look at new ways to sustain operating savings and grow the business, whilst delivering TWUL's commitments for its customers.

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 2013. TWUL's future strategy is based around delivery of the six outcomes that have resulted from extensive consultation with customers and stakeholders and are set out in its business plan and included in the 2014 Final Determination as described above.

The overall TWUL strategy is supported by distinct strategies for each of the four key business units (Wholesale Water, Wholesale Wastewater, Retail Household and Retail Non-Household). These business unit strategies are outlined below, and are aligned to drive delivery of the overall TWUL strategy.

### ***TWUL Business Model***

In AMP5, the TWUL business model was predominantly functionally focused and centrally structured. This model suited the regulatory environment in AMP5 and, TWUL believes, has been effective in delivering TWUL's strategy to date. However, the shifting political landscape, new laws and environmental regulations, technological advances, and changes in customers' expectations, have driven the change to a new business model.

To capitalise on, and to be proactive in identifying, upcoming opportunities, TWUL implemented a new business model in early 2015. The new model is set up to deliver greater flexibility, an increased customer focus, improve operating efficiency, and be more effective in delivering on the six key service outcomes.

TWUL is now structured into separate business units each with its own management structure and executive team:

- Wholesale Water;
- Wholesale Wastewater; and
- Retail (Retail Household and Retail Non-Household).

Each business unit focuses on its own customers and service delivery, supported by a central Corporate & Group Services business unit that aligns the overall TWUL strategy and business plan commitments, as well as providing uniform shared services across TWUL.

The two Retail Business Units are managed by one managing director and one chief financial officer, to deliver consistency in TWUL customer facing services.

The new business model will strengthen TWUL's operations, facilitate quicker decision making and deliver tailored responses to the changes that will occur in the different sectors of the water industry.

It will also enable the wholesale elements of the business to interact with the retail activities in the same manner as any other third party retailer and in line with Ofwat's requirements for when competition is injected into the retail market. Further details on each of the business units are summarised in the sections below.

## **Wholesale Water**

### ***Description***

Wholesale Water is responsible for all aspects of water abstraction and resources management, water treatment and distribution.

Wholesale Water maintains TWUL's statutory duty to provide reliable supplies of safe drinking water to all its customers, with minimal impact on the environment, meeting the needs of a growing population, adapting to a changing climate and keeping bills as low as possible. Water services are provided to around nine million customers, ranging from the urban metropolis of London, to the Thames Valley with its mixture of fast-growing towns and countryside.

#### ***Water Supply – Base Statistics 2014-15***

##### **Description**

Population served.....	9m
Properties served.....	3.6m
– households .....	94.10%
– non-households .....	5.9%
Length of mains .....	31,200km
Number of water treatment works .....	100
Number of main reservoirs	
Number of service reservoirs (in operation) .....	243
Raw water reservoirs.....	30
Other assets	
Treated water pumping stations .....	236 (221 in use)

#### ***Water Abstraction & Management of Water Resources***

Wholesale Water abstracts, treats, and distributes drinking water to around nine million customers across the London and Thames Valley area, with a 99.96% (2014/15) water quality compliance score, ranked amongst the best in the country.

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.

TWUL's supply area is one of the driest in terms of rainfall in the UK and has been defined by the Environment Agency as an area of water stress. TWUL is required to outline its long-term supply and demand strategy every five years in a water resources management plan (the "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.

TWUL's water resources strategy is to manage demand to the greatest extent possible, including: further reducing leakage; moving progressively to become a fully metered company; and actively promoting wise use of water reserves.

#### ***Water treatment***

Given that water is a finite resource, Wholesale Water recognises the importance of promoting its responsible use, and its safe return to the environment after use.

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 water quality standards.

Standards in drinking water are set pursuant to the Water Supply (Water Quality) Regulations 2000 by the UK Parliament and regulated by the DWI. Many of the parameters monitored are derived from the EU Drinking Water Directive but some national requirements are also included. DWI use a composite measure (Mean Zonal Compliance or MZC%) of 39 parameters, to provide an overall assessment of compliance against these standards at customers tap. This allows a comparison of drinking water quality across all water companies within England and Wales. In 2014 TWUL's MZC% was 99.96%, slightly better than the internal target TWUL set for 2015 of 99.94%. For all abstractions, water quality monitoring ensures that any necessary corrective action can be taken as and when required.

The water treatment strategy is to gradually improve both the capacity and reliability of TWUL's major works.

### ***Water distribution***

Wholesale Water distributes treated water through its trunk and distribution mains. The focus is on extracting only the amount of water that is required, treating it to ensure it is fully compliant with all drinking water standards and maintaining a network that can deliver this to customers 365 days a year without compromising on water quality.

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 to transfer 1.3 billion litres and provides water to customers in London via four connected treatment works. During 2010, TWUL completed the final stages of an extension programme which gives TWUL the ability to transfer treated water around London, and in doing so provides a greater level of resilience for its customers.

The water distribution strategy is to utilise latest technology to monitor and manage the performance of TWUL's system and reduce leakage.

### ***Strategy***

The Wholesale Water strategy is focused on growing the value of TWUL's business through:

- Continued improvements to TWUL's day-to-day operations, eliminating avoidable failures and responding quickly to those TWUL cannot avoid, providing an excellent customer service and leaving no customer without water.
- Meeting today's demand through TWUL's progressive metering programme and reducing leakage to its economic level, while preparing to serve a growing population.
- Using technology to improve the performance of TWUL's distribution network.

This strategy is intended to help ensure that TWUL may deliver the performance commitments in its AMP6 business plan and provide a sustainable business for future generations.

The strategy is aligned with the overall TWUL strategy to specifically help deliver four of the six agreed outcomes:

- Providing a safe and reliable water service that complies with all necessary standards and is available when customers require it.
- Demonstrating to customers and stakeholders that they can trust TWUL, that TWUL is easy to do business with, and that TWUL cares about them.
- Providing the level of service customers require in the most economic and efficient manner to ensure that bills are no higher than necessary.

- Limiting TWUL's impact on the environment and achieving a socially responsible and sustainable business for future generations, including reducing levels of leakage.

Delivering the strategy is focused on the following key activities:

- Improving capacity and reliability of water treatment works enabling continued compliance with drinking water quality standards;
- Installing monitoring devices to the biggest pipes on the network to reduce the risk of water bursts;
- Expanding the existing network by laying down new mains and pumps;
- Enhancing the performance of the network system and pre-empting service delivery issues by reducing water leakage; and
- Continuing to promote conservation and wise use of water to the public, including delivering a progressive metering programme.

Underpinning the successful delivery of the Wholesale Water plans will be two new alliances: the eight<sub>2</sub>O Alliance and the Infrastructure Alliance. This is a change to the previous working model, where partners with the insight, innovation, design, and delivery capabilities to outperform TWUL's regulatory commitments have been selected, to work as an integral part of Wholesale Water operational delivery.

The Infrastructure Alliance will deliver water network improvements and developer services for TWUL throughout AMP6. The Infrastructure Alliance is a partnership between TWUL and two new joint ventures, and the value of work expected to be executed by the Infrastructure Alliance in 2015-2020 is up to £1 billion.

The eight<sub>2</sub>O Alliance comprises two design and build joint ventures, a programme manager, and a technology innovator, with TWUL acting as both client and partner. The eight<sub>2</sub>O Alliance will carry out between £2bn and £2.5bn of capital delivery work over the AMP6 Period, for Wholesale Water and Wastewater.

## **Wholesale Wastewater**

### ***Description***

Wholesale Wastewater is responsible for all aspects of wastewater collection, treatment and sludge treatment, collecting and recycling sewage, extracting value at every stage of the process and minimising the effect on customers and the environment. Services are provided by maintaining a reliable infrastructure network that collects and transports wastewater when customers require it, treating it for compliance with regulations, and ensuring that the treated wastewater discharged does not deteriorate the quality of existing water in rivers.

Wholesale Wastewater is focused on removing and safely treating around 4.4 billion litres of wastewater for circa 15 million wastewater customers every day, and putting sewage sludge that is left over after wastewater treatment to satisfactory use (primarily in power generation).

The main areas of focus for Wholesale Wastewater are facilitating the TTT Project, improving customer service, reducing sewer flooding and pollution incidents, maintaining river quality and making full use of the potential to mitigate rising power costs through power generation.

### **Waste Water – Base Statistics 2014-15<sup>3</sup>**

Population equivalent served*	15m
Properties served	5.5m
– households	95%
– non-households	5%
Length of sewer	c.69,000 km of sewers and c.40,000 km of private sewers adopted Oct 2011
Number of wastewater treatment works	348
Volume of wastewater treated daily (litres)	4.4 bn
New sewerage connections	43k
Number of sludge treatment works	30
Number of pumping stations	c.2,700

*\* 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.*

### **Wastewater Collection**

The collection of wastewater involves a network of over 100,000 km of sewers and approximately 2,700 sewage pumping stations. The wastewater collection strategy is to maintain a fully integrated approach to running the sewer system, including reducing the input of rainfall into the system, to reduce the volume of water in the network.

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. This programme is focused on surveying sewers that cross underneath railways. To date, the inspection has identified around 20 sewers which require further review, which are now being addressed. Regular inspections are also carried out on large diameter man entry sewers, and in AMP6, this will be extended to other large diameter sewers where the consequences of failure are significant.

The previously private sewers and lateral drains that transferred on 1 October 2011 to TWUL are nearly all of low strategic significance and will initially be classified and managed as non-critical.

Additionally for AMP6 there will be the adoption by TWUL of eligible private sewerage pumping stations, as required by the Water Industry (Schemes for Adoption of Private Sewers) Regulations 2011. This is estimated to result in c.3000 sites being adopted in AMP6, with additional capital expenditure of around £60m and operating expenditure of around £10m.

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<sup>3</sup> Source: TWUL internal reporting.

### ***Wastewater Treatment***

Wastewater is treated at 348 sewage treatment works, which are monitored to ensure that the treatment works comply with standards, through risk assessments and focused investment.

### ***Disposal of sludge***

The production, treatment and recycling, reuse or disposal of sewage sludge is controlled by comprehensive legislation. TWUL maintained 100 per cent. compliance in 2014/15 with this legislation. Treated sludge is recycled to agricultural land as a biological fertiliser. Untreated sludge is used in land restoration projects as a bulk soil improver to help restore industrial land for future regeneration. Incineration ash is, where possible, recycled to industrial applications such as cement replacement. Otherwise, it is disposed of as an inert landfill product.

### ***Strategy***

Wholesale Wastewater is focused on collecting and recycling sewage, extracting value at every stage of the process, and minimising the effect on customers and the changing environment.

The strategy is aligned with the overall TWUL strategy to specifically help deliver four of the six agreed outcomes:

- Providing a safe and reliable wastewater service that complies with all necessary standards and is available when customers require it.
- Demonstrating to customers and stakeholders that they can trust TWUL, that TWUL is easy to do business with, and that TWUL cares about them.
- Providing the level of service customers require in the most economic and efficient manner to ensure that bills are no higher than necessary.
- Limiting TWUL's impact on the environment and achieving a socially responsible and sustainable business for future generations.

Delivering the strategy is focused on the following key activities:

- Continued investment in cost-effective measures to reduce and prevent flooding;
- Enhancing the efficiency and capacity of the infrastructure by continuing to invest effectively in the network;
- Upgrading sewage treatment works via focused investments;
- Targeted pre-emptive maintenance work on equipment which in the event of failure could lead to issues such as river pollution;
- Promoting and installing sustainable draining in collaboration with the Environmental Agency and local authorities;
- Increasing generation of renewable energy which will reduce the level of waste TWUL treats and disposes of; and
- Continuing to educate customers and the public of the issues caused by improper disposal of materials.

To underpin the successful delivery of the Wholesale Wastewater plans, TWUL has formed the eight<sub>2</sub>O Alliance and the Infrastructure Alliance to implement solutions that are cost-effective over the long-term

and improve the reliability of the wastewater services (see “*Wholesale Water – Strategy*” above for further details).

Additionally, whereas in AMP5 the Wastewater network was maintained by two separate third party contractors, it is now maintained by a single third party contractor. TWUL believes that this will help to manage a consistent, high quality service.

## **Retail Household**

### ***Description***

Retail Household provides customer facing activities, including billing, payments, debt management, meter reading, customer queries, correspondence, complaints handling, and everyday water efficiency advice. Whilst Retail Household effectively bills customers on behalf of the Wholesale businesses, it is the Retail business that carries the risks in respect of bad debts.

TWUL provides around 3.4 million households with water and wastewater services. A further 1.8 million households receive the TWUL wastewater service only and are billed on TWUL’s behalf by the relevant water supply company.

The Retail Household business manages over 15 million customer interactions per year, including issuing around 6.8 million bills, and dealing with more than 3.3 million phone calls and queries.

### ***Strategy***

The Retail Household strategy aims to provide a top class service whilst ensuring bills remain affordable.

The strategy is aligned with the overall TWUL strategy to specifically help deliver three of the six agreed outcomes:

- Demonstrating to customers and stakeholders that they can trust TWUL, that TWUL is easy to do business with and that TWUL cares about them.
- Providing the level of service customers require in the most economic and efficient manner to ensure that bills are no higher than necessary.
- Providing customers with a choice of easy-to-use contact options.

Delivering the strategy is focused on the following key activities:

- Providing a top class service whilst maintaining affordable prices;
- Providing customers easy to understand and accurate bills;
- Increasing the range of available contact options;
- Prioritising on getting things right first time and keeping communications timely and effective at every stage;
- Increasing the range of online account management services to improve the ease in carrying out transactions;
- Improving customer service via continuous investment in staff training and monitoring feedback which TWUL receives from on-going customer surveys;
- Continuing to support disadvantaged customers via means-tested social tariffs and access to other assistance funds; and



- Better management of debt collection to ease the cost of non-payment on customers who do pay.

### ***Customer Service***

Customer Service is a key focus for TWUL, and it is closely assessed and monitored by Ofwat. In April 2010, Ofwat introduced a new SIM which replaced the previous Overall Performance Assessment (“OPA”), to measure the level of customer service provided by the water industry. The SIM was calculated over the 3 years of 2011-12 to 2013-14 and TWUL suffered a penalty of c.£84m for the AMP5 period in the 2014 Final Determination (in 2012/13 prices – this number will not be finalised until the end of the AMP6 Period, as revenue is linked to RPI each year, and so the actual penalty may be in the region of £95m). TWUL has continued to measure itself using the SIM methodology and has seen improved performance in the last year of AMP5 as a result to the significant investment in customer service across TWUL’s operations.

The SIM will continue in the AMP6 Period, with the reward or penalty based on comparative performance for the four year aggregate period of 2015-16 to 2018-19. It is expected to be calculated in AMP6 using a weighted sum of a qualitative score (75%) and a quantitative score (25%). SIM will only be applicable to Household customers, however, SIM is not a Retail Household-only measure, as it is weighted across Wholesale and Retail. These scores are calculated based on the following:

- Qualitative (Customer survey - Quarterly). 800 surveys in total will be issued on an annual basis over 4 separate weeks. No notice will be given. The survey is based on a random sample from all customer contacts received in a specified period; contacts may be by telephone, written, by e-mail, web-based or by visit. The survey of 20 questions with the score based on the responses to the specific question “Taking everything into account how satisfied are you with the handling of this matter by TWUL?” A score of 1-5 will be given.
- Quantitative (Unwanted contact measures - Annual). Includes four components:
  1. Unwanted calls (*All inbound calls relating to an unwanted topic*)
  2. Written complaints (*All written complaints*)
  3. Second stage complaints (*All second stage complaints*)
  4. CCWater accepted for Investigation (*All complaints accepted for investigation*)

Ofwat has set out that the financial incentives will range from a maximum reward of 6% of Retail household revenues to a maximum penalty of 12% of Retail household revenues (in total over AMP6). This is broadly similar to the +0.5% to -1.0% of appointee revenue for SIM in AMP5.

SIM will be based on comparative industry performance. In AMP5, the maximum reward was earned for performance at least one standard deviation above average industry performance and the maximum penalty was earned for performance at least two standard deviations below the average industry performance.

Any reward or penalty will be factored into funding for AMP7.

### ***Customer Charges***

The charges to customers for water supply and sewerage services are billed by Retail. The element of the charge allowed for Retail is 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. Customers are offered a variety of different payment methods and options including weekly payments, direct debit and Paypoints. 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 2014/15 billing period was approximately £370 for the year.

The estimated average household bill (as per the Ofwat financial model, shown at 2012/13 price base) over the period 2015 to 2020, including the impact of the IP, is shown in the graph below.

**Estimated average household bill as per the Ofwat Final Determination (£)**

Affordability and assisting customers who regularly have difficulties in paying their bills is of increasing importance for Retail Household, and two new key measures have been agreed for AMP6: the customer assistance fund and social tariffs.

**Metering Customers**

TWUL has applied metered charges on all new properties, 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 Retail 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.

36.4 per cent. of TWUL's customers within its water supply zone, and 39.9 per cent. of TWUL's customers within its Sewerage Region, are metered.

Following approval of the revised draft Water Resources Management Plan, TWUL commenced a programme of progressively metering all its customers. The programme has started in London and TWUL's plan is to meter virtually all domestic and commercial properties across TWUL's entire supply area by 2030.

**Bad Debt**

Under the WIA, regulated water and wastewater companies are barred from disconnecting household customers from their water supply for failure to pay bills (Retail 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 2014/15 is 12.1 per cent. (2013/14: 12.4 per cent.).

Bad Debt is therefore a significant cost for TWUL and the largest cost for Retail. It is an area of major focus for TWUL, which is completing a transformation of its credit and collection activities including the implementation of a new debt management system, the provision of new data, revision of all its processes and up skilling of its people. The new system is in the process of going live through a staged approach and later this year TWUL will become a member of Equifax's credit bureau data share, Insight, which will enable TWUL to affect the credit score of its customers. With these changes TWUL expects to reduce the level of bad debt relative to the size of the bill over AMP6.

## **Systems**

Retail Household is committed in the AMP6 final determination to the procurement, design and implementation of a new Customer Relationship Management & Billing system (CRMB). This is anticipated to deliver improvements across the Retail Household business including improved customer service and debt management.

## **Retail Non-Household**

### ***Description***

Retail Non-Household is responsible for all aspects of retail service delivery to all business customers. This is undertaken in TWUL for its supply area (in area) customers and in a separate legal entity Thames Water Commercial Services ("TWCSL") for its out-of-area customers. Retail Non-Household also undertakes a number of small non-regulated activities in both TWUL and TWCSL.

Retail Non-Household includes all customer-facing activities, such as billing, payments, debt management, meter reading, customer queries, correspondence and complaints handling (related to non-household customers). This includes providing everyday water efficiency advice for TWUL's circa 250,000 non-household customers.

An important feature of the non-household market is the introduction of competition from 2017 for retail services for all non-household customers across both water and wastewater services. At present, customers using more than 5 million litres per year are able to choose their water retailer in England and Wales – about 3 per cent. of TWUL customers. TWUL expects that from 2017 all non-household customers will have this option for both water and waste water retail services. In Scotland the market is already open to competition. TWUL has been active in the competitive market through TWCSL in order to learn how the competitive market works and to build a presence to be able to compete on a national basis when the market opens in England and Wales. As at 31 March 2015, TWCSL had 146 customers.

### ***Strategy***

The strategy is aligned with the overall TWUL strategy to help deliver three of the six agreed outcomes:

- Demonstrating to customers and stakeholders that they can trust TWUL, that TWUL is easy to do business with and that TWUL care about them.
- Providing the level of service customers require in the most economic and efficient manner to ensure that bills are no higher than necessary.
- Providing TWUL's customers with a choice of easy-to-use contact options.

Additionally, Retail Non-Household is focused on maximising profitability and increasing market share where possible. This approach is summarised as follows:

- Defend – retain value by removing all drivers that may encourage TWUL’s existing customers (both in- and out-of-area) to look elsewhere;
- Maximise – improve the value of TWUL’s service to customers, while increasing the value TWUL receives, through upselling and cross-selling additional products and services;
- Grow – Find value in the acquisition of new customers; and
- Cost to Serve – Reducing the cost to serve including the cost of bad debt to deliver profitability and allow retail to compete on price.

Delivering the strategy is focused on the following key activities:

- Prioritising on getting things right first time and keeping communications timely and effective at every stage;
- Increasing the range of online account management services to improve the ease in carrying out transactions;
- Reducing the cost to serve and tackling the cost of bad debt;
- Improving customer service via continuous investment in staff training and monitoring feedback that TWUL receives from on-going customer surveys;
- Cross-sell added value products and services that differentiate Retail and meet the specific needs of customers to increase profitability;
- Targeted acquisition and retention of customers; and
- Preparing for competition across systems, people and data. Learning from the competitive market in Scotland.

### ***Customer Charges***

PR14 was the first time that charges for Household and Non-Household customers were required to include separate customer charging structures based on both retail and wholesale tariff elements. Ofwat’s guiding principle was that all charges should closely reflect the costs of serving different customer types. Therefore the non-household charges structure has been revised for AMP6 for TWUL’s in-area customers in TWUL. There are now a total of 33 different tariff bands for water, waste and trade effluent - which tariff band a customer falls into is determined by whether they are metered or unmeasured, and by their annual consumption.

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.

Charges for out of area customers are set individually in a competitive market. Thames calculates each charge separately taking into consideration the wholesale charge, the cost to serve, the working capital required, additional services sold and the credit strength of the customer.

### ***Preparing For Competition***

In order to be successful in the competitive market in 2017 and comply with the market rules, Retail is investing its systems, people, data and processes. This focuses on the following areas;

- Data Cleansing – In order to comply with the conditions of the market, the data provided has to meet certain standards and be in a set format. In order to compete it is also important that Retail has complete and accurate data;
- Changes to systems and processes – Current systems are being configured to be able to meet the requirements of the market whilst new systems and processes are being developed to enable Retail to compete on a national basis;
- Building/developing relationships with key customers – To retain these in area and provide a retail service out of area;
- Continuing to grow and learn in the competitive market in Scotland;
- Developing the target areas for competition;
- Developing the people and building a team to operate in the competitive market; and
- Fully engaging in the consultation and formation of the market.

### ***AMP5 Key Performance Indicators***

The following KPIs were considered crucial to measuring the success of the business in AMP5 and provide a snapshot of performance during 2014/15. Each KPI is rated Green, Amber or Red; as defined below:

- Green - Performance at or above TWUL's benchmark
- Amber - Performance slightly below TWUL's benchmark
- Red - Performance significantly below TWUL's benchmark

<b>Key Performance Indicator</b>	<b>Units</b>	<b>Performance 2014/2015</b>	<b>Performance 2013/14</b>	<b>2014/15 Rating</b>
Service Incentive Mechanism (SIM) <sup>1</sup>	Unwanted customer contacts and complaints (score out of 50)	35.01	32.80	Green
	Customer satisfaction score <sup>2</sup> (score out of 5)	4.29 (internal measure)	4.03 (internal measure)	
Health and Safety - Reportable injury rate	Incidents per 1000 employees	0.19	0.25	Green
Drinking water quality	%, calendar year	99.96	99.96	Green

<b>Key Performance Indicator</b>	<b>Units</b>	<b>Performance 2014/2015</b>	<b>Performance 2013/14</b>	<b>2014/15 Rating</b>
Security of Supply Index (SOSI) <sup>1</sup>	Score out of 100	100 (average) 100 (critical period)	100 (average) 99 (critical period)	Green Green
Water supply interruptions <sup>1</sup>	Hours of supply lost per property served	0.19	0.20	Green
Water asset performance (above ground) <sup>1</sup>	As measured by Ofwat's 'serviceability' measures	Stable	Stable	Green
Water asset performance (below ground) <sup>1</sup>		Stable	Stable	Green
Sewer flooding <sup>1</sup>	Number of repeat incidents	443	471	Amber
Sewage treatment works discharge compliance <sup>1</sup>	%, calendar year	98.85	95.71	Green
Satisfactory sludge disposal <sup>1</sup>	%, calendar year	100	100	Green
Sewerage asset performance (above ground) <sup>1</sup>	As measured by Ofwat's 'serviceability' measures	Stable	Stable	Green
Sewerage asset performance (below ground) <sup>1</sup>		Deteriorating	Deteriorating	Red
Greenhouse gas (GHG) emissions <sup>1</sup>	Kilo tonnes of carbon dioxide equivalent	824	739	Red
Condition of sites of Special Scientific Interest (SSSI)	% of area which fall into the top two categories defined by Natural England	99	99	Green
Leakage <sup>1</sup>	MI/d	654	644	Green
Pollution incidents (sewerage) <sup>1</sup>	Nr. Per 10000 km sewer length	75.66	89.56	Amber
Serious pollution incidents (sewerage) <sup>1</sup>		2.34	3.22	Amber
Average household	£ per financial year	370	358	Green

Key Performance Indicator	Units	Performance 2014/2015	Performance 2013/14	2014/15 Rating
bill				
Post tax return <sup>1</sup>	% financial year <sup>3</sup>	4.79	4.88	Green for AMP5 <sup>3</sup>
Credit rating <sup>1</sup>	Rating <sup>4</sup>	Baa1	Baa1	Green
Gearing <sup>1</sup>	% financial year <sup>5</sup>	80.1	77.6	Green
Interest cover <sup>1</sup>	Ratio of earnings to interest payments	2.0	1.8	Green

<sup>1</sup> **KPIs** required by Ofwat (Source: 2014/15 Draft Statutory Accounts)

<sup>2</sup> **SIM:** For 2014/15, TWUL is no longer required to report on the overall Ofwat SIM measure, as Ofwat is trialling a new CSAT measure, and the independent CSAT survey for SIM has been discontinued since March 2014. In 2014/15, TWUL has replaced the overall SIM measure with two separate KPIs. These are in line with the two parts of the overall SIM measure, with the independent CSAT survey replaced by TWUL's own customer satisfaction survey. This CSAT survey is based on customer feedback on service provided and replicates as closely as possible the prior years' independent surveys.

<sup>3</sup> **Post Tax Return on capital (PTROC)** is a regulatory measure of the level of post-tax regulatory operating profit TWUL makes on its asset base. The PTROC was 4.75% for 2014/15 which was below Ofwat's target of 4.99% primarily due to higher than expected operating expenditure, infrastructure renewals charge and depreciation in the year. TWUL's performance over AMP5 of 5.29% was greater than the regulator's assumption of 4.97%.

<sup>4</sup> **Credit Rating** target is to maintain strong investment grade credit ratings. Rating represents the consolidated corporate family rating assigned by Moody's.

<sup>5</sup> **Gearing** is measured by comparing the sum of net debt and debt issuance cost not yet amortised against RCV.

The targets for 2014/15 have been met for the majority of indicators. A summary of where they have not been met, or where performance improvements are being focused, is given below.

### ***Sewer Flooding (Amber)***

**Description:** Occurs when sewage escapes from sewer pipes through a manhole cover or a drain, or by backing up through toilets.

**Commentary:** This is rated 'Amber' as the number of repeat incidents is marginally above the target set by Ofwat.

The number of incidents has fallen slightly in 2014/15 as against 2013/14, partly due to the last 12 months being considerably drier than 2013/14. A number of measures to improve performance have also been implemented, including process improvements to prioritise jobs more effectively, enhancements to fast response vehicles and flood protection equipment.

Strategies to manage the risk of sewer flooding in extreme wet winters are in development. The first phase of 21 drainage strategies and their implementation plans have been circulated to MPs, local authorities, flood forums and parish councils, plus other interested parties, for consultation.

### ***Sewerage asset performance – below ground (Red)***

**Description:** An assessment of the recent historical trend in serviceability to customers, as measured by movements in service and asset performance indicators.

*Commentary:* Performance of below-ground wastewater assets has been assessed as ‘deteriorating’ and graded as ‘Red’. This assessment is driven by performance on ‘other causes’ flooding and network pollution, which have been above their respective upper control limits for two years.

*‘Other causes’ flooding:* The number of properties that suffered sewer flooding from ‘other causes’ (due to blockages, collapses or equipment failure) fell from 903 in 2013/14 to 868 in 2014/15 following improvements in processes, additional resources and equipment brought in during 2014/15. The number of properties affected over 2014/15 was within the upper control limit of 875 properties set by Ofwat for this indicator.

*Network Pollution:* The pollution asset performance indicator is the number of network pollution incidents reported in a calendar year in the top three pollution categories (Categories 1 to 3) as defined by the Environment Agency. There were 192 such incidents recorded in 2014 (2013: 232). This was an improvement on the 2013 performance, reflecting the ongoing mitigation measures in place such as targeting sewer cleaning activity. However, it was still above the upper control limit (147 incidents) set by Ofwat for this indicator for the third year in succession. On this basis, the overall below ground asset performance has been assessed as deteriorating.

In 2015/16, this KPI will be replaced by an assessment of Asset Health of wastewater infrastructure assets.

TWUL is committed to delivering stable asset health and is commencing a number of innovative initiatives to achieve this, such as using acoustic sensors to detect the build-up of fats, oils and grease in sewers and the use of real-time information from the field to make better decisions in the control room.

### ***Greenhouse gas (GHG) (Red)***

*Description:* Measurement of the annual operational GHG emissions of the regulated business in Kilotons of carbon dioxide equivalent (kTCO<sub>2</sub>e), including outsourced activity.

*Commentary:* This KPI has been given ‘red’ RAG status, as TWUL was 10.2% above the adjusted target for 2014/15 of 747 kTCO<sub>2</sub>e, and Ofwat set a 10% tolerance on emissions. The target was not met because the increases in emissions associated with meeting higher wastewater treatment standards have not yet been offset by increases in renewable generation.

Absolute greenhouse gas (GHG) emissions have risen by 84.8 kTCO<sub>2</sub>e (11.5%) compared to 2013/14. Over a third of this increase was due to increased electricity consumption from new wastewater plants, required, to meet higher sewage treatment standards. In the AMP5 business plan, TWUL had offset this with additional renewable electricity generation and energy efficiencies, chiefly through the delivery of 7 Thermal Hydrolysis Plants (THP). These plants generate renewable energy by processing sludge. By the end of 14/15 all of the THPs were installed but only one was fully operational, consequently TWUL was not able to provide significant renewable energy during 2014/15. Once fully operational, these new plants are expected to reduce TWUL’s dependency on grid electricity by over 10%. The remaining 62.5% of the increase in emissions was outside TWUL’s control, due to the Defra grid electricity emissions factor rising 11% since 2013/14.

### ***Pollution incidents (sewerage) (Amber) & Serious pollution incidents (sewerage) (Amber)***

*Description:* The total number of categories 1 to 3 pollution incidents in a calendar year emanating from a discharge or escape of a contaminant from a sewerage company asset; and the total number of category 1 and 2 incidents in a calendar year emanating from a discharge or escape of a contaminant from a sewerage company asset.



*Commentary:* The Environment Agency categorises pollution incidents on a scale from one (most serious) to four (no significant environmental impact). They maintain the official database of all reported pollution incidents and confirm numbers for each calendar year.

The KPIs are expressed in terms of incidents per 10,000 km sewer and include pollution incidents relating to sewage treatment work discharges as well as discharges from the sewer network.

The improvement in performance from the previous year reflects TWUL's continued focus on preventing pollution taking place and responding more effectively when it does.

Despite the decrease in pollutions, the KPIs have an 'Amber' status as the number of incidents are above the target set by Ofwat.

### ***Performance commitments and incentives***

For the five-year AMP6 Period, TWUL has agreed to a number of commitments on its operational performance ('performance commitments') in wholesale and household retail. Actual performance against these commitments will increase or decrease revenues where commitments have attached financial penalties associated with underperformance or rewards for outperformance (ODIs). These incentives will be monitored during the AMP6 Period and will apply to revenues and the RCV from 1 April 2020.

The performance commitments and incentives are set out in detail in the 2014 Final Determination and in particular in the Thames Water company-specific appendix. For the incentives, this includes 'deadbands' (the neutral zone around performance commitments where incentives do not apply), 'penalty collars' (the level of performance at which the maximum penalty applies) and 'reward caps' (the level of performance at which the maximum reward applies).

The financial incentives by performance commitment are set out in the table below:

### **Financial ODIs**

Performance commitments (PCs)			ODI impacts (2012-13 prices)	
Wholesale Water				
Ref.	Measure	Unit	Maximum reward	Maximum penalty
WA4	Reduced water consumption from issuing water efficiency devices to customers	Reduced demand Ml/d	n/a	£3.3m (revenue)
WB1	Asset Health Water Infrastructure	Composite index	n/a	£46.8m (revenue)
WB2	Asset Health Water Non Infrastructure	Composite index	n/a	£46.8m (revenue)
WB3	Compliance with drinking water quality standards - Ofwat/DWI KPI	% compliance		£39.2m (revenue)
WB5	Average hours lost per property served due to interruptions >4hrs (Cap of 20,000 property hours)	Hours lost supply per property served	£46.9m (revenue)	£53.4m (revenue)

	per incident)			
WB6	Security of Supply Index - Ofwat KPI	Index	n/a	£34.0m (revenue)
WB7	Compliance with SEMD advice notes (with or without derogation)	% compliance	n/a	£9.3m (revenue)
WB8	Ml/d of sites made resilient to future extreme rainfall events	Ml/d cumulative	£1.0m (revenue)	£1.0m (revenue)
WC2	Leakage	Ml/d	£16.2m (revenue)	£61.2m (revenue)
WC5	Deliver 100% of agreed measures to meet new environmental regulations	% agreed schemes completed	n/a	£36.5m (RCV)
<b>Wholesale Water total</b>			<b>£64.1m</b>	<b>£331.3m</b>
<b>Wholesale Wastewater</b>				
<b>Ref.</b>	<b>Measure</b>	<b>Unit</b>	<b>Maximum reward</b>	<b>Maximum penalty</b>
SB1	Asset Health Wastewater Non Infrastructure	Composite index	n/a	£45.4m (revenue)
SB2	Asset Health Wastewater Infrastructure	Composite index	n/a	£45.4m (revenue)
SB3	Properties protected from flooding due to rainfall	Properties protected (£m annual benefit)	£64.0m (RCV)	£216.0m (RCV)
SB4	Number of internal flooding incidents, excluding those due to overloaded sewers (SFOC)	Number of incidents	£35.8m (revenue)	£58.5m (revenue)
SB5	Contributing area disconnected from combined sewers by retrofitting sustainable drainage	Hectares cumulative	£14.3m (revenue)	£5.2m (revenue)
SB6	Compliance with SEMD advice notes (with or without derogation)	% compliance	n/a	£3.7m (revenue)
SB7	Population equivalent of sites made resilient to future extreme rainfall events	PE cumulative	n/a	£0.2m (revenue)
SB8	Lee Tunnel including Shaft G	Year of delivery	n/a	£33.5m (revenue)

SB9	Deephams Wastewater Treatment Works	Year of delivery	n/a	£198.0m (revenue)
SC2	Total category 1-3 pollution incidents from sewage related premises	Cat 1, 2 and 3 incidents	£22.1m (revenue)	£42.3m (revenue)
SC3	Sewage treatment works discharge compliance	% compliance	n/a	£43.6m (revenue)
SC7	Modelled reduction in properties affected by odour	Modelled reduction in properties (cumulative)	£6.7m (revenue)	£3.0m (revenue)
SC8	Deliver 100% of agreed measures to meet new environmental regulations	% agreed schemes completed	n/a	£33.9m (RCV)
SC9	Reduce the amount of phosphorous entering rivers to help improve aquatic plant and wildlife	Kg removed / day	£11.9m (RCV)	£30.3m (RCV)
<b>Wholesale Wastewater total</b>			<b>£154.7m</b>	<b>£758.9m</b>
<b>Thames Tideway Tunnel</b>				
<b>Ref.</b>	<b>Measure</b>	<b>Unit</b>	<b>Maximum reward</b>	<b>Maximum penalty</b>
T1C	TWUL will limit the extent of delays on the overall programme timeline - Completion of category 2 and 3 construction works and timely availability of sites to the IP*	Cumulative number of sites	n/a	£156.4m (RCV)
<b>Thames Tideway Tunnel total</b>			<b>n/a</b>	<b>£156.4m</b>
<b>Household Retail</b>				
<b>Ref.</b>	<b>Measure</b>	<b>Unit</b>	<b>Maximum reward</b>	<b>Maximum penalty</b>
RB1	Implement new online account management for customers supported by web-chat	Status	n/a	£33.5m (revenue)
<b>Household retail total</b>			<b>n/a</b>	<b>£33.5m</b>

Source: Thames Water Group analysis of the 2014 Final Determination

*\* This ODI is measured by reference to contractual penalties and regulatory enforcement. See further details in respect of this ODI regarding potential penalties and netting-off in Chapter 5B “Description of the TTT Project proposed delivery model – The Alliance Agreement”.*

## **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 2005, the independently-chaired Thames Tideway Strategic Study, which included technical teams from TWUL, the Environment Agency (the “EA”), Defra and the Greater London Authority recommended three integrated solutions to solve the problem of London’s overloaded sewers:

- (i) Sewage Treatment Upgrade Works at Mogden, Beckton, Crossness, Long Reach and Riverside that discharge treated flows into the tidal River Thames (“Sewage Treatment Upgrades”);
- (ii) the Lee Tunnel (the “Lee Tunnel Project”); and
- (iii) the TTT Project – the most significant part of the overall scheme.

Collectively, these works are known as the “London Tideway Improvements”.

TWUL has carried out the Sewage Treatment Upgrades and is in the process of commissioning the Lee Tunnel. Following the completion of the Lee Tunnel and the Sewage Treatment Upgrades, the combined sewerage discharges into the River Thames are estimated to reduce to about 18 million cubic metres. It is these remaining discharges which the TTT Project is designed to address.

The EA has confirmed in a letter to TWUL dated 4 July 2012 that, if implemented in full, the TTT Project “*will control CSOs to a level that is compliant with the [Thames Tideway Strategic Study (published in 2005)] and in so doing [limit] pollution from CSOs and thereby [meet] the requirements of that part of the UWWTD*”.

The EA has further confirmed in a report dated October 2013 that, if and to the extent the TTT Project performs as modelled and with “*output from the compliance test procedure [showing] that up to 4 spills from CSOs [per year] take place with the tunnel option*”, the TTT Project will be “*deemed to satisfy the requirements of the UWWTD (to collect spills under normal conditions)*”.<sup>4</sup>

### ***The Thames Tideway Tunnel***

Currently in the planning and development phase, it is proposed that the TTT Project 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 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 <http://www.thamestidewaytunnel.co.uk>. The submission of a development consent order application was

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<sup>4</sup> p.10, *An assessment of evidence on Sustainable Drainage Systems and the Thames Tideway Standards. A report by the Environment Agency for the Department for Environment, Food and Rural Affairs*. Final October 2013.

made on 28 February 2013 and a development consent order was granted on 24 September 2014. The development consent order is the subject of judicial review proceedings.

The TTT 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 TTT Project include, but are not limited to: delays in and challenges to planning (see Chapter 1 “*Risk Factors – Risks arising from the Thames Tideway Tunnel – Risks associated with the DCO*” for more detail on challenges to 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 TTT Project at a P50 level (meaning that there is an 50 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 £4.2 billion (at 2011 prices, excluding inflation). Although the likely impact of delivering and financing the TTT 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 (although there will be no separate bills and there will be no separate itemisation of the revenue collected on behalf of the IP in customers’ bills). The final impact will depend on, amongst other things, construction costs (as adjusted by delays and other compensation events), the cost and availability of finance and the positive impact of the government support package provided by the UK Government which is designed to support the IP for the exceptional risks or where normal risks arise but have a disproportionate impact on the project which, in either case, the market is unwilling to accept.

In respect of initial work on the TTT Project, TWUL has been funded through the 2009 Final Determination in respect of the AMP5 Period. This initial work included 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 ensure the development of the TTT Project, TWUL funded costs in AMP5 which exceeded those included in the 2009 Final Determination. To the extent that the costs of land acquisition exceed the sums included in the 2009 Final Determination such costs are a Notified Item and the subject of TWUL’s unsuccessful interim determination application in 2013. TWUL’s remaining AMP5 costs relating to the TTT Project which sat outside the 2009 Final Determination and interim determination application were considered at the 2014 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 TTT Project, received Royal Assent. The provisions of the Water Industry (Financial Assistance) Act came into force on 1 July 2012.

In accordance with Section 36A (which forms part of Part 2A of the WIA), the Secretary of State promulgated the SIP Regulations in June 2013. The SIP Regulations set out a new regulatory framework which allows the Secretary of State or Ofwat to specify a particular project for delivery by an infrastructure provider if that project satisfies the criteria set out in SIP Regulations as to size and complexity and value for money. The SIP Regulations are being utilised to deliver the TTT Project in a way which will ensure that the TTT Project is designed, constructed, operated, financed and maintained by a separate IP which will be a standalone utility and entirely separated from TWUL, meaning that TWUL is

insulated from the majority of the risks (for example, construction risk) in respect of the TTT Project (see also Chapter 1 “*Risk Factors*” under the sub-heading “*Risk arising from the Thames Tideway Tunnel*”). The Secretary of State specified the TTT Project as a ‘specified infrastructure project’ pursuant to SIP Regulations in June 2014. This means that TWUL is precluded from carrying out the TTT Project other than in respect of certain preparatory works set out in the Preparatory Work Notice and certain other works, services and activities of a preparatory nature.

Discussions with stakeholders regarding the delivery model include the development of project documentation which will be entered into by the successful IP and a Government support package which will also be made available to it.

If the notice under which the TTT Project has been specified is revoked:

- (a) TWUL will have an obligation under the Licence to put forward a proposal within 6 months of the revocation of the Project Specification Notice which addresses the issue of sewage discharges into the river Thames with a view to securing compliance with the Urban Waste Water Treatment (England and Wales) Regulations 1994 (as amended from time to time) (“UWWTR”), together with an estimate of the costs of delivering such proposal;
- (b) in respect of any works to implement any proposal with a view to securing compliance with the requirements of the UWWTR, TWUL will only be obliged, under the Licence, to implement such works to the extent that the additional funding has been awarded to TWUL through either a determination by Ofwat or the Competition and Markets Authority pursuant to the regulatory settlement process;
- (c) the IP shall have no right under any agreement with TWUL to claim any sum from TWUL in respect of any IP assets which may transfer to TWUL in these circumstances; and
- (d) Ofwat will not require TWUL to accept a transfer of IP assets unless (i) the relevant asset has been included in a proposal for which TWUL has received funding, and (ii) such transfer is directed by Ofwat at no cost to TWUL.

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 TTT 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 period 1 April 2011 to 1 April 2018 unless an increased limit is agreed between the parties.

## **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. The Wholesale Water and Wastewater approach to Alliances and Contractors in AMP6 has changed significantly, as described above in the Strategy sections for Wholesale Water and Wastewater.

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 a reflection of Good Industry Practice and TWUL’s future strategy.

## **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**

Employees with defined benefit arrangements in TWUL participate in either the Thames Water Pension Scheme ("TWPS") or the Thames Water Mirror Image Pension Scheme ("TWMIPS"). Both schemes calculate member benefits on a career average basis rather than final salaries. Employees joining the company after 1 May 2011 (including all those who were automatically enrolled into a workplace pension scheme in accordance with the requirements of the Pensions Act 2008) are in defined contribution pension arrangements.

The assets of these schemes are held separately from the rest of the Group in independently administered funds. Under Financial Reporting Standard 17 (Retirement Benefits) ("FRS 17") the deficit calculated at 31 March 2015 for the Thames Water Group's defined benefit pension schemes totalled £312 million (£250 million net of deferred tax). This net deficit comprises a deficit in the TWPS of £333 million and a restructured surplus in the TWMIPS of £21 million. As the two schemes are separate, a surplus in one scheme cannot be set off against a deficit in the other.

The latest statutory funding valuation of the defined benefit schemes was undertaken as at 31 March 2013. During the completion of the March 2013 valuations, employer contributions were agreed with the trustees of both schemes in 2014 resulting in a deficit repayment programme of £17.2 million (adjusted for inflation) per annum for the TWPS over the period from 1 April 2015 to 31 December 2025 and £3 million (adjusted for inflation) per annum for the TWMIPS over the period from 1 April 2015 to 31 December 2020. During 2014/15, TWUL implemented changes to the way in which benefits in TWMIPS will be earned for future service from 1 June 2014, thereby reducing contributions for TWUL and members for future service. This has also resulted in the recognition of a one-off non-cash curtailment gain of £10m in the March 2015 financial statements.

The next statutory funding valuation will be undertaken with an effective date of 31 March 2016.

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 2015 and the section of this Chapter entitled "*Ring-fencing and the TWU Financing Group – 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.

Under the provisions of the Lee Conservancy Catchment Board (New Functions of River Authorities) Order 1965, the Lee Navigation Improvement Act 1965 and the River Lee Water Act 1855, TWUL is obliged to make payments on an annual basis to the Canal and River Trust ("CRT") in respect of management of the River Lee, from which it both abstracts and introduces water. These payments are set

by the Secretary of State for Environment Food and Rural Affairs. The current level of payment is £368,000 per annum, having been set on 12 December 1995. On 12 December 2000 CRT sought an increase in the payment. Following that request, the parties disputed the level of the payment and they have, for a number of years, been in negotiations and discussions with the Secretary of State in an effort to agree the level of payment. During this time TWUL has continued to pay £368,000 per year to CRT. Following a break down in the discussions, on 31 October 2014 CRT issued proceedings in the Queen's Bench Division of the High Court in London under part 8 of the Civil Procedure Rules, seeking an interpretation from the court of the relevant statutory provisions under which the payments are made. CRT contends that the answers to these questions of the court will assist the Secretary of State in reaching a determination of the amount of the payments.

TWUL has made an open offer to CRT to make payment at the level of £368,000 on an annual basis, adjusted in line with inflation for the relevant period. This has been rejected by CRT which has indicated that it considers that the payments should be set to take account of the market value of the water which TWUL abstracts from the River Lee and that this sum would be considerably in excess of the current payment level, and potentially as much as £30,000,000 per annum. TWUL is in the process of responding to the claim, which has recently been transferred to the Chancery Division of the High Court. It is anticipated that a hearing may now take place in late 2015 or early 2016. Any decision of the court would then need to be considered by the Secretary of State in setting the level of payment. No indication has been given by the Secretary of State as to when that may happen.

### **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 Regulatory Accounting Guideline 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 pay dividends only 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. Licence Condition F requires TWUL to operate the Appointed Business as though it were substantially TWUL's sole business and TWUL was a separate public limited company, and to have particular regard to:

- (i) the composition of the Board such that the Directors, acting in that capacity, 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 sewerage 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, and (c) an important change in the function or executive responsibilities of a Director occurs, and ensuring TWUL notifies 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 Conduct 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 Conduct 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 that 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 Instrument of 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. The Macquarie European Infrastructure Fund II provides an Ultimate Controller undertaking which is reflected by the amended Licence Condition P.

## **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 which will 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 and its telephone number is +44 (0) 20 3577 8800.

TWUL's authorised and issued share capital is £29,050,000 divided into 29,050,000 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.

##### ***Auditors of TWUL***

The Auditors of TWUL are KPMG LLP, 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.

In January 2014, Ofwat published *Board leadership, transparency & governance – principles*, which set out the minimum standards that Ofwat considered should guide the governance arrangements of the regulated companies operating in the water sector in England and Wales. In order to meet Ofwat's governance principles the Kemble Consortium shareholders' agreement was amended. In March 2015, the composition of the TWUL Board was revised to consist of a Chairman, two Executive Directors, up to five Kemble Consortium appointed Non-Executive Directors and up to five Independent Non-Executive Directors such that the Independent Non-Executive Directors and Chairman constitute the single largest group on the Board.

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.

### ***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 scheme rewards performance against a combination of customer service, financial, individual and health and safety objectives. The long-term incentive plan is linked to the AMP6 Period customer service, financial and asset health objectives demonstrating commitment to sustainability of performance. The structure of both the annual bonus scheme and long term incentive plan is reviewed by TWUL's Remuneration Committee and approved by the Board.

## **Directors of TWUL**

### ***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, a non-executive director of the 2012 Olympic Delivery Authority and a senior non-executive director of BAE Systems plc. He is currently a non-executive director of Subsea 7 S.A. and Spie S.A. and Chairman of the AGS Group. Sir Peter was made a Knight Commander of the British Empire (KBE) for services to international trade in 2002.

## **Executive Directors**

### ***Chief Executive Officer***

Martin Baggs was appointed Chief Executive Officer in March 2010. 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, and 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***

Christopher Deacon was appointed a non-executive director of TWUL in December 2006. He brings extensive experience as a banker and adviser in major infrastructure and project finance. Presently, he is

an adviser 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 Canaccord Genuity Group Inc., JKN Oil & Gas Plc (where he is the Senior Independent Director and 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.

Mark Braithwaite is Head of Utilities and Networks for the Macquarie Infrastructure and Real Assets division of Macquarie Group Limited ("MIRA") in Europe. He joined MIRA in 2011, having previously been Chief Financial Officer of TWUL. Prior to joining TWUL, Mark was Finance Director of the customer and energy divisions at EDF Energy plc, and before that held a number of senior finance positions at SEEBOARD plc. Mark is a non-executive director of Arqiva, Viesgo Infraestructuras Energéticas, Czech Gas Networks and Techem. Mark is a fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Association of Corporate Treasurers.

Nick Horler was appointed as a non-executive director of Thames Water Utilities in April 2014. Nick is a portfolio non-executive director. He has been a member of the Board of Royal Mail since 2010 and a member of the Board of the Go-Ahead Group since 2011. He has been Chair of Alderney Renewable Energy Ltd since 2013 and Chair of Meter Provida Ltd since 2014. He became Chair of Adler & Allan in March 2015. He recently stepped down as the Chair of the Advisory Board of KPMG's Energy and Natural Resources practice which he held from 2011-2014. Nick spent his Executive career in the energy industry. He worked for Phillips Petroleum for 12 years in a variety of roles in the UK and USA. He spent 11 years with E.On including eight years on the Board of E.On UK, first as Managing Director of PowerGen Energy Trading Ltd and then as Managing Director of E.On Retail. He spent two and a half years as the CEO of Scottish Power from 2008 to 2010.

Guy Lambert was appointed as a non-executive director in October 2014. Guy has been with the Abu Dhabi Investment Authority in the Infrastructure Division since February 2008, and currently heads up the utilities business globally within the Infrastructure Division. Guy is responsible for sourcing and executing new investments in the utilities sector and overseeing the existing utilities portfolio. His previous roles include Corporate Finance and Advisory Manager at Macquarie Capital London and Corporate Finance and Advisory Analyst at Dresdner Kleinwort Wasserstein. Guy has an MSc in Economics from Erasmus University in Rotterdam, Netherlands.

### ***Independent non-executive Directors***

Michael Pavia was appointed a non-executive director of TWUL in December 2006 and is TWUL's Senior Independent Director. 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 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.

Lorraine Baldry OBE was appointed as an independent non-executive director of Thames Water Utilities in September 2014. Lorraine has over 40 years' experience in a wide range of industries including Technology, Broadcasting, Distribution, Real Estate and Financial Services. Lorraine is Chairman of London & Continental Railways, Schroder Real Estate Investment Trust Limited, Inventa Partners Ltd and Tri-Air Developments Ltd. She is the Senior Independent Director of Circle Holdings (UK) plc and a Governor at the University of the Arts London. Lorraine was Chief Executive of Chesterton International plc and prior to that held various senior positions at Prudential Corporation, Morgan Stanley and Regus. She is a former Chairman of London Thames Gateway Development Corporation and Central London Partnership and a former non-executive director of St Ives plc and DTZ Holdings plc. Lorraine was also a Board Member of the Olympic Delivery Authority for the 2012 London Olympics. Lorraine is an Honorary Member of the Royal Institution of Chartered Surveyors and a Past President of the British Property Federation. She was awarded an OBE in the Queen's Jubilee Honours.

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 is currently Vice President of the Trading Standards Institute and Deputy Chair of the Financial Services Authority. She has also held a number of positions on a variety of bodies dealing with food issues.

Ian Pearson was appointed as an independent non-executive director of TWUL in September 2014. Ian works in strategy and business development for major organisations. In addition to being an iNED at Thames Water he is a member of the Advisory Board of the accountants PwC, Chairman of Octopus VCT2 plc and of CrowdBnk Ltd, and a Senior Adviser at GK Strategy and Avanti Communications. Elected to Parliament in a by-election in December 1994, until standing down before the 2010 general election, Ian had various roles in Government. He was Economic Secretary to Her Majesty's Treasury between 2008 and 2010. Before that he had important roles as Science and Innovation Minister, Minister for Climate Change and the Environment, Minister for Trade, and as a Minister in Northern Ireland. Ian studied PPE at Balliol College, Oxford before gaining a Masters and Doctorate at the University of Warwick.

Ed Richards was appointed a non-executive director of TWUL in July 2010. He was the Chief Executive of Ofcom until December 2014, having previously been the Chief Operating Officer. He was previously a Senior Policy Adviser to the Prime Minister for Media, telecoms, the internet and e-government and Controller of Corporate Strategy at the BBC. He is currently leading the independent review of financial services trade associations, and is also a Director of Donmar Warehouse and a Governor of the London School of Economics.

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

#### ***Company Secretary of TWUL***

The Company Secretary and Assistant Company Secretary of TWUL are, respectively David Hughes and Carolyn Campbell-Wales.

#### ***Subsidiaries***

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

### ***TWUL/TWH Loan Agreement***

TWUL has on-lent funds to TWH under the TWUL/TWH Loan Agreement (see also below under “TWH”, sub-paragraph “*Activities of TWH*”) (the “TWUL/TWH Loan”). TWUL directors must consider their latest view on the company’s equity value when valuing TWUL’s asset, the TWUL/TWH Loan, in the financial statements.

### **The Issuer**

#### ***Company Details***

The Issuer was incorporated under the laws of 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 c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The UK contact address for the Issuer is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB and its telephone number is +44 (0) 20 3577 8800. The Issuer operates under the laws of the Cayman Islands.

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.

In respect of measures in relation to such control, TWUCFH is ultimately owned by the Kemble Consortium. The Kemble Consortium have entered into a shareholders’ agreement which complies with the Ofwat publication “*Board leadership, transparency & governance – principles.*” The directors of the Issuer support high standards of corporate governance and have particular regard for the UK Corporate Governance Code issued by the Financial Reporting Council.

#### ***Auditors of the Issuer***

The Auditors of the Issuer are KPMG LLP, 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, Stuart Ledger and Paul Kerr.

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 and tax 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, Thames Water 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 Chief Financial Officer - Retail for Thames Water Group. He is a member of the Chartered Institute of Management Accountants.

Paul Kerr was appointed a director of the Issuer, TWUF and TWUCFH on 6 September 2013. He is the Chief Financial Officer, Wholesale Water, for Thames Water Group.

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 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 LLP, 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, Stuart Ledger and Paul Kerr 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 and Assistant Company Secretary of TWUF are, respectively, David Hughes and Carolyn Campbell-Wales.

#### ***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 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 LLP, which is a member firm of the Institute of Chartered Accountants in England and Wales.

### ***Directors of TWH***

The directors of TWH are Edward Beckley, Rosamund Evelyn Blomfield-Smith, Daniel Buffery, Christopher Deacon, Richard Greenleaf, Guy Lambert, Sir Peter Mason KBE, Perry Noble, Giles Tucker, Yan Wang, Lincoln Webb, Robert-Jan Bakker (as alternate to Daniel Buffery), Peter Hofbauer (as alternate to Perry Noble), Christy Pham (as alternate to Lincoln Webb), David Rees (as alternate to Rosamund Evelyn Blomfield-Smith) and Fuxin Sheng (as alternate to Yan Wang). Their principal activities are set out in “*TWUL*” under “*Directors of TWUL and Corporate Governance*” above.

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, David Hughes and Carolyn Campbell-Wales.

### ***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, including its entry into the TWUL/TWH Loan Agreement. TWUL has advanced a further £835,000,000 to TWH since the Initial Issue Date under this TWUL/TWH Loan Agreement. The total amount advanced under the TWUL/TWH Loan Agreement is currently £2,015,000,000 and repayable by TWH in 2037. 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 under the laws of 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 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.

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 LLP, 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, Stuart Ledger and Paul Kerr 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 5B

### DESCRIPTION OF THE TTT PROJECT PROPOSED DELIVERY MODEL

Given the size and scale of the TTT Project and its importance to UK infrastructure, TWUL has, together with Defra, Ofwat and Infrastructure UK within Her Majesty’s Treasury, developed a delivery model for the TTT Project under which it is delivered by an independent infrastructure provider. Infrastructure providers were specifically introduced by the FWMA and the SIP Regulations to deliver projects (i) that are of such a size and complexity that they threaten the incumbent undertaker’s ability to provide services for its customers and (ii) where “specifying” the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project was not specified. Projects meeting these criteria can be specified as such by Ofwat or the Secretary of State.

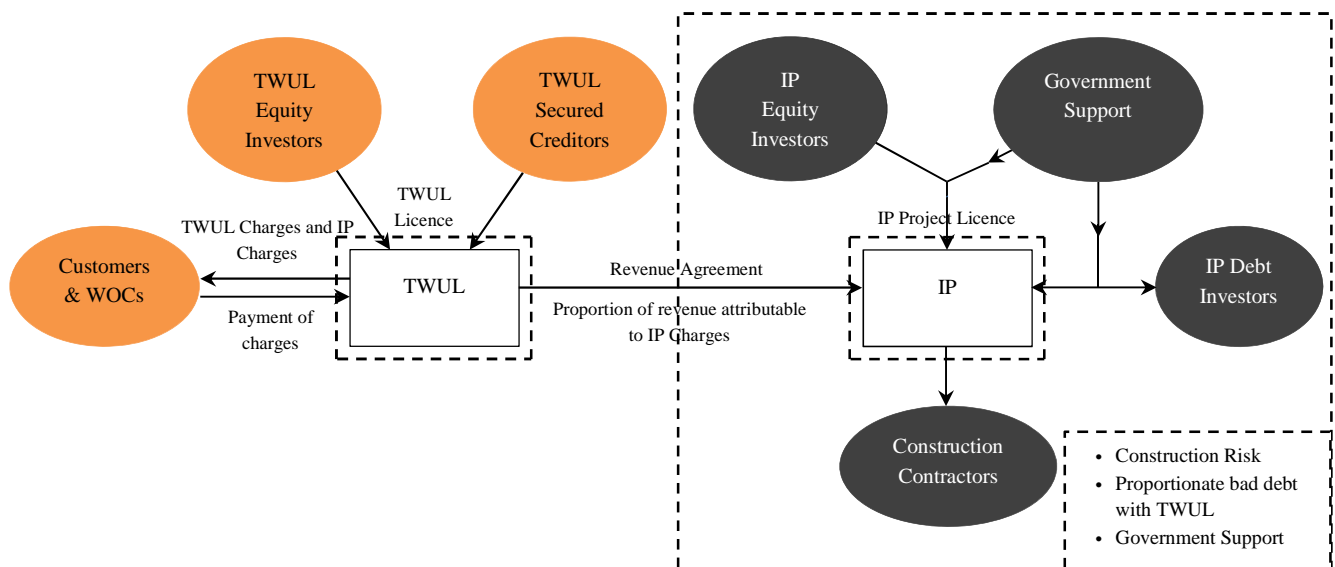
The IP will not be owned by TWUL but will be an independent entity with its own licence and separately regulated by Ofwat. The IP will also be responsible for raising its own capital. The IP will be required to design, construct, finance, test, commission, operate and maintain the TTT Project.

TWUL will collect additional revenues from customers which it will pass to the IP and TWUL’s Licence has been amended to include the ability and obligation to collect such additional revenues. TWUL will only be required under the Revenue Agreement with the IP to pass such revenues to the IP on a “pay when paid” basis i.e. TWUL will only be required to pass to the IP the relevant proportion of its revenues (commensurate with the proportion of the IP Charges to TWUL’s total wastewater charges) when it has collected them.

In addition to the collection of revenues, TWUL will require that the IP is contractually obliged to ensure that that the Thames Tideway Tunnel connects correctly to, and integrates with, TWUL’s existing sewer network.

Set out below is an overview of the proposed delivery model:

#### Overview of the proposed delivery model



- (a) The SIP Regulations came into force on 28 June 2013. The SIP Regulations (and the underlying primary legislation permitting their creation) were specifically enacted in order to provide for the delivery of projects such as the TTT Project.
- (b) The TTT Project was specified under the SIP Regulations on 4 June 2014 by way of the Project Specification Notice. TWUL is now prohibited from undertaking the majority of the works in connection with the TTT Project, including almost all of the construction works. TWUL is currently at an advanced stage in the procurement of an IP to undertake the TTT Project. TWUL is required to undertake certain preparatory works in relation to the TTT Project pursuant to the Preparatory Work Notice also issued on 4 June 2014.
- (c) The IP will be controlled by different shareholders from TWUL and be subject to its own licence issued by Ofwat. The IP will by law and regulation be required to design, construct, finance, test, commission, operate and maintain the TTT Project as specified and will own, operate and maintain the structures owned by the IP, including the main tunnel, certain associated tunnels and shafts (“IP Owned Structures”) and the majority of the risks associated with such construction will be ring-fenced from TWUL.
- (d) TWUL’s Licence has been amended to permit it to increase its allowed charges to its customers to reflect the cost of the IP’s delivery of the TTT Project (the “IP Charges”). The IP Charges will form part of TWUL’s overall charges, and therefore a single bill will be given to TWUL’s customers and there will be no separate itemisation of the IP Charges on customers’ bills.
- (e) The Revenue Agreement and the TWUL Licence will set out the relationship between TWUL and the IP with regard to payment of the IP Charges. As described above, TWUL will be able to charge additional amounts to its customers under its amended Licence to recover the IP Charges for the IP.
- (f) The Revenue Agreement will provide that TWUL is only required to pass on to the IP the proportion of revenue collected from customers or the water only companies (the “WOCs”) which the IP Charges represent as a proportion of TWUL’s wastewater charges.
- (g) TWUL’s obligation to pay the IP is on a pay when paid basis.
- (h) Under the Revenue Agreement, there will not be any situations in which a failure to pay to the IP the IP Charges when received by TWUL could result in a right to accelerate such charges by the IP. In this situation, the IP may be entitled to default interest only (in respect of the period from when such amount was due and payable to the IP but remains unpaid). *In extremis* the IP may elect to terminate the Revenue Agreement and, once construction is completed to charge directly customers who are directly or indirectly connected to the IP’s assets.

### **Description of the TTT Project**

*This section sets out a detailed summary of the delivery model developed for the TTT Project following extensive discussions with the Secretary of State, Ofwat and Infrastructure UK within Her Majesty’s Treasury. However, the delivery model, while in an advanced state of development, is not final and is subject to change and final authorisation and approvals. This summary does not purport to be complete and is subject to final consents, approvals and documentation. Statements that are made or implied as to the future, including the use of the word “will”, in this description are as to current intent as understood at the date of this Prospectus only and not representative as to any future state, circumstance, happening or commitment.*

The TTT Project is required to enable the Government to satisfy the requirements of the Urban Waste Water Treatment Directive (see further detail below in *Part 1 – Background and overview*). In order to

deliver the TTT Project, the Government has passed legislation in the form of the Flood and Water Management Act 2010 (which inserted provisions into the Water Industry Act 1991) and the SIP Regulations which provide for the delivery of specified infrastructure projects by way of an infrastructure provider.

The infrastructure provider structure has been developed both in legislation and in regulation in order to ring-fence an incumbent undertaker from the risk associated with carrying out of major complex infrastructure and to ensure that the incumbent undertaker, in this case TWUL, is able to continue to deliver its core services. There is a risk that the delivery of a major complex infrastructure project could otherwise undermine this.

TWUL will transfer the design, construction and financing scope and risks to the IP save in respect of the TWUL Works. During construction, the IP will be required to ensure the designs for the IP Works and the TWUL Works integrate with each other and the sewer network in order that the TTT Project and the Lee Tunnel can be operated in accordance with the Environmental Permits and the Operating Techniques. The effect of the IP delivery model is to leave TWUL in a position which is similar to its current position with the obligation to manage its water and sewerage business within the current regulatory framework for water and sewerage undertakers.

TWUL will review and comment on the detailed design of the TTT Project as it is developed by the IP, but this process will not result in TWUL accepting any risk in, or responsibility for, the IP detailed design.

Following completion of construction, the IP's operation and maintenance obligations initially comprise the testing and commissioning of the assets constructed by the IP (other than the storm pump exercising system). Once testing and commissioning is complete and a System Acceptance certificate has been issued pursuant to the Interface Agreement (see "*TWUL Works – The Interface Agreement*" below for further detail), the IP will transfer to TWUL all permanent assets constructed by the IP other than the IP Owned Structures which remain with the IP and for which the IP will have ongoing operation and maintenance responsibility. The IP Owned Structures are set out in detail in the IP Project Licence but may be summarised as follows: the tunnels, de-aeration chambers, de-aeration vents, vortex tubes, vortex generators, the vortex liner, shafts, shaft cover slabs and everything constructed inside the shafts except for the MEICA equipment, metalwork and access covers. All other TTT Project assets will be operated and maintained by TWUL. As such TWUL will operate the overall TTT Project system (other than the IP Owned Structures) as part of TWUL's sewer network (including inlet gates, SCADA systems and pumping stations) and ensure compliance with the Environmental Permits. By operating such assets, TWUL will thereby effectively control the flow of storm sewage into and out of the TTT Project.

This section sets out further information regarding TWUL's role in the TTT Project, the interaction with the IP and the implications of an IP delivery model on TWUL's existing core business. In particular, this section sets out:

- (a) TTT Project background and overview (Part 1);
- (b) Legislative and regulatory overview of the SIP Regulations and the IP delivery model (Part 2);
- (c) Implementation of the TTT Project within the legal and regulatory regime (Part 3); and
- (d) Impact on TWUL of the IP delivery model (Part 4).

## **Part 1 – Background and overview**

### **Overview**

#### ***General Overview***

London's Victorian sewerage system was designed to collect sewage and rainfall from a city with a population of four million. To prevent the combined sewage backing up and flooding people's homes and businesses, the sewers were designed to discharge sewage and rainwater to the tidal River Thames through combined sewer overflows ("CSOs") when the capacity in the main system was exceeded.

London's CSOs now discharge about 39 million cubic metres of untreated combined sewage and rainwater into the tidal River Thames in a typical year. Discharges can occur over 50 times in a year. The increase in discharges arises from the population increase (now in excess of 7 million people) and changes to the city layout through new buildings, roads and other infrastructure. The level of sewage discharge is having a detrimental impact on the environment and the tidal River Thames, and the system has been found to be in breach of EU environmental legislation.

The UWWTD is the European legal directive which specifies certain requirements for the collection and treatment of municipal wastewater which apply in all EU member states in all but "exceptional" situations.

Pursuant to Article 3 of the UWWTD, Member States are required to ensure that all urban agglomerations in excess of a certain minimum size are provided with urban wastewater collecting systems. Article 4 of the UWWTD states that urban wastewater entering collecting systems must be subject to secondary treatment or an equivalent treatment before discharge. Article 10 of the UWWTD states that the deadline for member states of the EU to comply with Articles 3 and 4 of the UWWTD was 31 December 2000.

In 2004, the European Commission initiated infraction proceedings against the Government pursuant to Article 258 of the Treaty on the Functioning of the European Union, alleging that the Government had failed to discharge its obligations under Articles 3, 4 and 10 of the UWWTD.

The CJEU determined on 18 October 2012 that the European Commission had been correct in finding that the collecting and treatment system put in place in London did not meet the obligations laid down in Article 3 of the UWWTD and that, by failing to make urban wastewater from the agglomeration of London subject to secondary treatment or an equivalent treatment, in accordance with Articles 4 and 10 of the UWWTD, the UK had failed to fulfil its obligations under the UWWTD.

The European Commission is entitled to seek from the CJEU the right to levy fines from the Government in respect of its failure to implement the UWWTD. The Government has notified the European Commission that it will support the implementation of the Thames Tideway Improvement Scheme (as detailed below) in order to rectify the Government's lack of compliance with the UWWTD. Implementation of the London Tideway Improvement Scheme within a reasonable time will have the effect of staying any application by the European Commission to the CJEU for permission to fine the Government. The CJEU has the power to impose fines of up to 0.1% of GDP.

#### ***Section 94 of the WIA***

Sewerage undertakers, including TWUL, have a principal duty under section 94 of the WIA to:

- (a) provide, improve and extend a system of public sewers and to cleanse and maintain those sewers so as to ensure that that area is and continues to be effectually drained (s.94(1)(a)); and

- (b) make provision for the emptying of those sewers and such further provision as is necessary from time to time for effectually dealing, by means of sewage disposal works or otherwise, with the contents of those sewers (s.94(1)(b)).

The UWWTR (which implemented the UWWTD into English law) supplements section 94 with specific duties regarding urban waste water treatment.

Schedule 2 of the UWWTR requires that:

- (a) collecting systems shall take into account waste water treatment requirements; and
- (b) the design, construction and maintenance of collecting systems shall be undertaken in accordance with the best technical knowledge not entailing excessive costs, notably regarding volume and characteristics of urban waste water, prevention of leaks, and limitation of pollution of receiving waters due to storm water overflows.

Section 4 of the UWWTR specifies that:

- (a) the duty imposed by s.94(1)(a) of the WIA shall include a duty to ensure that collecting systems which satisfy the UWWTR requirements set out at Schedule 2 of the UWWTR are provided:
  - (i) by 31 December 1998 for every agglomeration with a population equivalent of more than 10,000 where the urban waste water discharges into receiving waters which are a sensitive area; and, otherwise
  - (ii) by 31 December 2000 for every agglomeration with a population equivalent of more than 15,000; and
  - (iii) by 31 December 2005 for every agglomeration with a population equivalent of between 2,000 and 15,000;
- (b) the UWWTR requirements do not apply where the EA has certified that the establishment of a collecting system would produce no environmental benefit, or if the Secretary of State has certified that the establishment of a collecting system is not justified because it would involve excessive cost, as long as individual systems or other appropriate systems are provided and the EA has certified that those systems achieve the same level of environmental protection; and
- (c) the duty imposed by s.94(1)(b) of the WIA shall include a duty to ensure that, *inter alia*:
  - (i) urban waste water entering collecting systems is, before discharge, subject to treatment provided in accordance with the UWWTR;
  - (ii) plants built in order to comply with the UWWTR standards are designed (account being taken of seasonal variations of the load), constructed, operated and maintained to ensure sufficient performance under all normal local climatic conditions; and
  - (iii) disposal routes for treated waste water and sludge minimise the adverse effects on the environment.

In the absence of alternative arrangements, responsibility for compliance with section 94 of the WIA rests with an incumbent undertaker, provided that Ofwat has allowed sufficient funding to carry out such functions.

However, in respect of the TTT Project, the Government formed the view that delivery of the TTT Project should not rest with the incumbent undertaker. Instead, the Government has specified the TTT Project



under the new specified infrastructure projects regime which applies to projects of a size or complexity that would threaten the ability of an undertaker to provide services for its customers.

As part of the specification consultation process, the “*Thames Tideway Tunnel: Draft Reasons for Specifying the Project as a Specified Infrastructure Project*” notice was published on the Defra website in December 2013. These reasons were finalised when the TTT Project was specified in June 2014. The notice sets out the Government’s reasons for specifying the TTT Project and acknowledges that should TTT Project not be specified, and TWUL was expected to deliver the TTT Project, TWUL would bear significant regulatory and financial risk, and recognises that “unless adaptations to the regulatory regime were made, TWUL would need to commit to a substantial proportion of the investment without knowing what return it could expect”.

### **The Localism Act 2011**

As described in Chapter 5B “*Description of the TTT Project proposed delivery model – Localism Act*”, it is possible that the Government could be fined if further proceedings are initiated against the Government in respect of the CJEU judgment handed down on 18 October 2012. While it is difficult to predict the level of any fine that might be imposed, Defra has estimated that the European Commission may seek fines upwards of £100 million a year. Fines are calculated based on the duration and seriousness of the infringement and the individual Member State’s capacity to pay.

These fines could be passed down to a public authority pursuant to section 48 of the Localism Act 2011 (the “Localism Act”). The Localism Act gives Ministers of the Crown discretionary power to require a public authority to pay all, or part, of a financial sanction imposed on the UK by the CJEU. This discretion is restricted to public authorities which have been designated in relation to the specific EU infraction case in question and subject to certain notice requirements.

Section 52 of the Localism Act gives Ministers the power to designate one or more named public authorities, identify the specific infraction case to which the designation relates, and describe the activities of the authority covered by the designation. Only acts or omissions which occur post designation can be taken into account when passing a financial sanction. Prior to making a designation order, the Minister must consult with the public authority concerned.

The Government has stated that the default position would be to use any existing regulatory framework first to resolve issues relating to infractions. The Government would only seek to designate a private company under the Localism Act if they had such public functions and had caused or contributed to an active infraction case and any existing regulatory bodies had not been able to effectively incentivise compliance.

Any attempt to pass fines on to TWUL would first require that the Secretary of State designate TWUL as a public authority for the purposes of section 52 of the Localism Act. In doing so, the Secretary of State would need to demonstrate that TWUL carries out functions of a public nature. As at the date of this Supplement, the Secretary of State has not designated TWUL as a public authority for this purpose.

The term “functions of a public nature” is not defined under the Localism Act nor is it a term of art at law. Case law does not point to a clear definition and notes that the meaning of the term varies according to statutory context and factual circumstances.

### ***The London Tideway Improvements***

In 2005, the independently-chaired Thames Tideway Strategic Study, which included technical teams from TWUL, the EA, Defra and the Greater London Authority, recommended three integrated solutions to solve the problem of London’s overloaded sewers:

- (a) Sewage Treatment Upgrade Works at Mogden, Beckton, Crossness, Long Reach and Riverside that discharge treated flows into the tidal River Thames (“Sewage Treatment Upgrades”);
- (b) the Lee Tunnel – a 6.9km sewage tunnel through the London Borough of Newham for which construction began in 2010; tunnelling work commenced in early 2012 and has now been completed, with commissioning scheduled for late 2015 (the “Lee Tunnel Project”); and
- (c) the TTT Project – the most significant part of the overall scheme.

Collectively, these works are known as the “London Tideway Improvements”.

TWUL is in the process of carrying out the Sewage Treatment Upgrades and Lee Tunnel Project. Following the construction of the Lee Tunnel and the Sewage Treatment Upgrades, the combined sewage discharges into the River Thames are estimated to reduce to about 18 million cubic metres. It is these remaining discharges which the TTT Project is designed to address.

The EA reiterated its continuing support for the TTT Project in a letter to TWUL dated 4 July 2012, stating that *“the proposed system operating strategy will control CSOs to a level that is compliant with the [Thames Tideway Strategic Study (published in 2005)]....and thereby [meet] the requirements of that part of the UWWTD.”*

The EA has further confirmed in a report dated October 2013 that, if and to the extent the TTT Project performs as modelled and with *“output from the compliance test procedure [showing] that up to 4 spills from CSOs [per year] take place with the tunnel option”, the TTT Project will be “deemed to satisfy the requirements of the UWWTD (to collect spills under normal conditions)”*.<sup>5</sup>

The proposed tunnel solution was supported by Government in written Ministerial Statements in 2010<sup>6</sup> and 2011.<sup>7</sup>

### ***TTT Project***

The 25km long tunnel (the TTT Project) will intercept the remaining unsatisfactory discharges from 34 CSOs on the north and south banks of the tidal River Thames and transfer the flow for treatment at Beckton and Common Sewage Treatment Plants (the “Thames Tideway Tunnel”).

The Thames Tideway Tunnel will run from Acton Storm Tanks in West London to the Lee Tunnel at Abbey Mills in East London. The CSO flow from multiple locations will be intercepted and dropped down from the existing sewers and connected into the main tunnel where it will flow by gravity to the connection with the Lee Tunnel before continuing down to the pumping station where it will be pumped to Beckton Sewage Treatment Plant for treatment. The Thames Tideway Tunnel will start 30m deep in Acton and finish 65m beneath ground level at Abbey Mills.

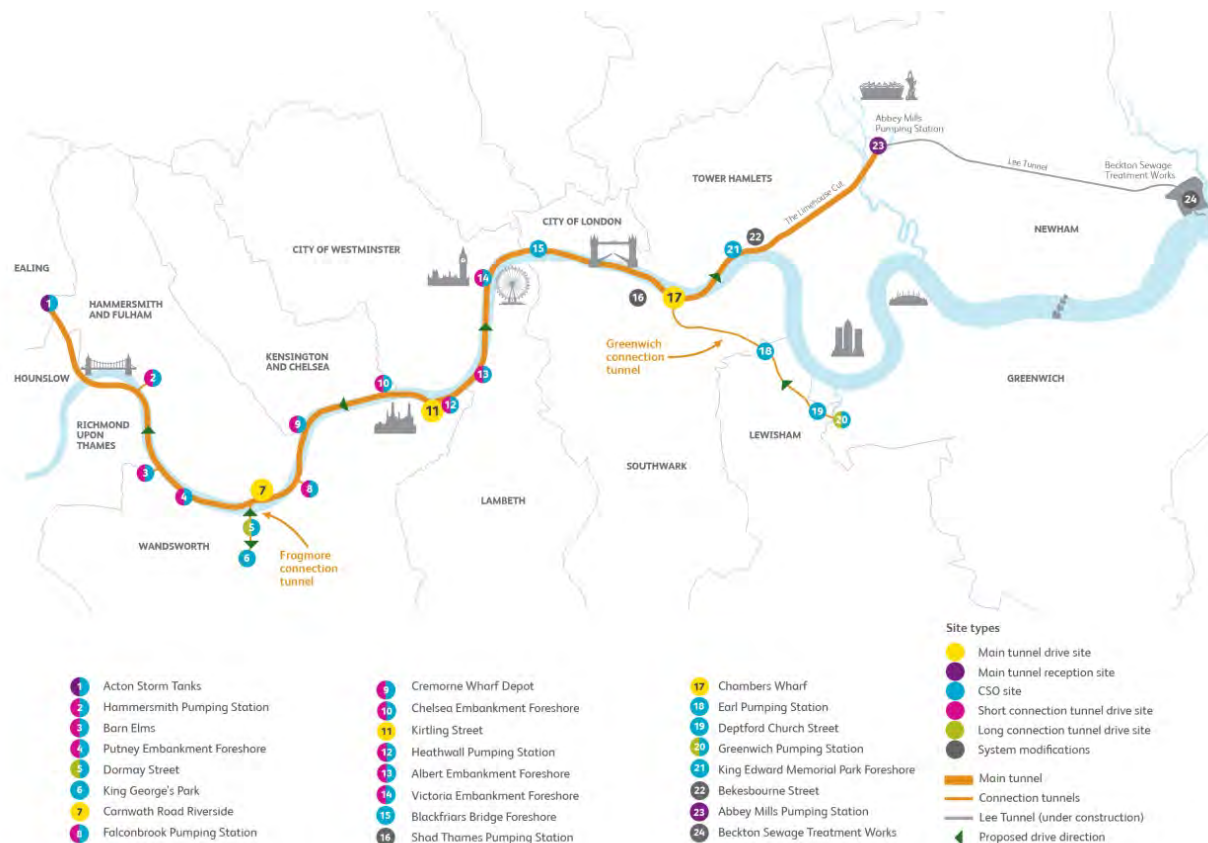
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<sup>5</sup> p.10, *An assessment of evidence on Sustainable Drainage Systems and the Thames Tideway Standards. A report by the Environment Agency for the Department for Environment, Food and Rural Affairs*. Final October 2013.

<sup>6</sup> Daily Hansard. Written Ministerial Statements. 7 September 2010: Column 10WS.

<sup>7</sup> Daily Hansard. Written Ministerial Statements. 3 November 2011: Column 41WS.

## Illustration showing the route of the Thames Tideway Tunnel, with project sites



The TTT Project will require works to be carried out at 24 separate construction sites to make system modifications, drive the tunnel using tunnel boring machines and to intercept the CSOs themselves and connect them to the main Thames Tideway Tunnel. Along with the main tunnel there will be several connection tunnels to connect intercepted CSOs to the main tunnel. The main tunnel will be approximately 6.5 to 7.2m in diameter and the two principal connection tunnels will be 2.6m and 5.0m in diameter.

When the TTT Project is completed as part of the London Tideway Improvements, the volume of CSO discharge is expected to reduce by over 90% and the number of CSO events is expected to reduce from over 50 to three or four per year during a typical year.

## Part 2 – Legislative and regulatory overview of the SIP Regulations and the IP delivery model

### The Specified Infrastructure Projects Regime

#### Part 2A of the WIA

Part 2A of the WIA was inserted by the FWMA. It confers powers on the Secretary of State to make regulations (the “Regulations”) in respect of the provision of projects of a size or complexity that threatens the ability of the undertaker to provide services for its customers. Under these Regulations, the Secretary of State or Ofwat could require that such projects (once specified) be put out to tender to be financed and delivered by a third party IP rather than the undertaker. The provisions of the FWMA and the SIP Regulations were enacted in order to provide a potential delivery model for projects such as the TTT Project.

Part 2A of the WIA is largely permissive with regard to the degree and nature of the Regulations and is sufficiently broad to encompass an IP which is licensed and directly regulated (including economic and non-economic regulation) by Ofwat.

Part 2A of the WIA provides as follows:

- (a) The Regulations may:
  - (i) confer regulatory functions on Ofwat;
  - (ii) apply provisions of Part 2 of the WIA with or without modification; and
  - (iii) make provisions similar to a provision of Part 2 of the WIA.

The provisions of Part 2 of the WIA include such matters as appointment of undertakers, enforcement orders and the special administration regime, each as described below.

- (a) The Regulations must specify the activities to which they apply, which may include designing, constructing, owning and operating infrastructure.
- (b) The Regulations may permit or require an undertaker to carry out certain preparatory work.
- (c) The Regulations must:
  - (i) make provisions about the extent to which companies associated with an undertaker are permitted to bid in a tender process;
  - (ii) specify the procedure to be followed in a tender process;
  - (iii) provide for the undertaker responsible for the tender process to determine which bid to accept (if any); and
  - (iv) specify criteria to be used by the Secretary of State or Ofwat in determining whether to specify that a project must be put out to tender.
- (d) An IP can be designated such that it is directly regulated by Ofwat. The Regulations may:
  - (i) confer powers and impose duties on designated IPs (including any power or duty that is the same as or similar to a power or duty conferred or imposed under or by virtue of the WIA on undertakers);
  - (ii) confer powers and impose duties on Ofwat, the Secretary of State or any other body with public functions;
  - (iii) relieve undertakers of specified duties to a specified extent;
  - (iv) provide for designation to be conditional;
  - (v) provide, or enable the provision of, limits on powers and duties conferred on the designated infrastructure providers;
  - (vi) include provisions about enforcement; and
  - (vii) include provisions for variation or revocation of designation.

### ***SIP Regulations Consultation***

In publishing the SIP Regulations consultation, Defra noted that the SIP Regulations may offer benefits through:

- (a) ring-fencing the delivery and financing of an individual project and its risks from the delivery and funding of other capital projects, thereby reducing the risk that the project may affect the undertaker's ability to provide other services to customers;
- (b) increasing competition in relation to the delivery of the infrastructure by enabling new entrants to participate in the delivery of water and sewerage infrastructure;
- (c) revealing the level of risk the investors are willing to bear;
- (d) incentivising a market-tested project cost of financing and single project focus thereby reducing the risk of major project overruns; and
- (e) introducing strategic and innovative approaches.

### ***SIP Regulations***

Following the consultation, the SIP Regulations were made on 27 June 2013 and came into force on 28 June 2013. Regulation 4(1) of the SIP Regulations allows the Secretary of State or Ofwat to specify by notice an infrastructure project as a "specified infrastructure project". An infrastructure project is a project or part of a project in connection with designing, constructing, owning or operating infrastructure. It is a project which an incumbent water or sewerage undertaker must ordinarily undertake to fulfil its statutory duties under section 37 (general duty to maintain water supply system etc.) or section 94 (general duty to provide sewerage system) of the WIA.

Regulation 4(3) of the SIP Regulations provides that the Secretary of State or Ofwat may only exercise the power to specify an infrastructure project if he is of the opinion that:

- (a) the infrastructure project is of a size or complexity that threatens the incumbent undertaker's ability to provide services for its customers (referred to herein as the "Size or Complexity condition"); and
- (b) specifying the infrastructure project is likely to result in better value for money ("VfM") than would be the case if the infrastructure project was not specified, including taking into account:
  - (i) the charges fixed or likely to be fixed under Chapter 1 of Part 5 of the WIA (financial provisions, charges); and
  - (ii) the authority of the Secretary of State under section 154B of the WIA (financial assistance for major works).

(The condition in paragraph (b) above is referred to herein as the "VfM condition").

In December 2013, the Secretary of State issued a consultation on whether or not he should specify the TTT Project as a specified infrastructure project, setting out his reasons for so specifying as required by the SIP Regulations. These reasons were confirmed when the Secretary of State specified the TTT Project on 4 June 2014. A draft of the Project Specification Notice was also made available as part of the consultation.

In approaching the Size or Complexity condition, the Secretary of State has, in his reasons, discounted the ability of the incumbent undertaker, subject to price review control by Ofwat, to pass on the costs of the TTT Project to customers. He has also discounted the availability of financial support being made available under section 154B of the Act. Otherwise, in the Secretary of State's opinion, there would be no project which would threaten the incumbent undertaker's ability to provide services for its customers and the condition in Regulation 4(3) (a) would be rendered ineffective.

In his reasons, the Secretary of State expresses the view that determining whether the Size or Complexity condition is satisfied in any particular circumstances is a matter of fact and degree. A variety of risks may

affect whether an incumbent undertaker will have the ability to provide services to its customers if it undertakes an infrastructure project. The Secretary of State has identified the following risks as being particularly relevant to the TTT Project:

- (a) scale risk, arising from the size of the TTT Project in the context of the whole of the incumbent undertaker's business;
- (b) construction risk, arising from the nature of the TTT Project's construction works in the context of the works usually undertaken by the incumbent undertaker;
- (c) management risk, arising from the type and scale of management resource necessary to manage the TTT Project in the context of the management resources necessary to manage the rest of the incumbent undertaker's business; and
- (d) regulatory risk, arising from the duration of the TTT Project in the context of the usual duration of capital works in the incumbent undertaker's business.

### ***Scale risk***

The Secretary of State considered in his reasons TWUL's investment programme for 2010 to 2015. This programme had a cost of £5.5bn, leading to a regulated capital value ("RCV") for TWUL at the end of this period of £11bn, funded approximately 75% by debt and 25% by equity. The largest single project (the Lee Tunnel Project at £635m) was 12% of the overall capital expenditure in that period and 6% of TWUL's total RCV. If the Lee Tunnel Project were to have failed, it is likely that TWUL's balance sheet could have accommodated the failure.

The Secretary of State noted in his reasons in contrast that the TTT Project would form 30% of RCV, with peak annual expenditure of £500m to £900m. Such a concentration of risk in a single project would increase the risk profile of TWUL by comparison with the normal profile in an undertaker, with a portfolio of projects that are significantly smaller than the TTT Project and which would spread the risk.

### ***Construction risk***

The Secretary of State also considered in his reasons the TTT Project against the capital programmes of water and sewerage companies ("WASCs") which typically involve assets of lesser scale than the TTT Project, and with limited and well understood technical risks. Whilst the evidence of tunnel works being delivered on time and to cost is mixed, and tunnelling techniques have improved over the years, underground construction carries higher risks than construction above ground. The Secretary of State concluded in his reasons this is partly due to the consequences to above-ground structures if things go wrong and partly due to the difficulty of assessing all of the geological risks before tunnelling starts.

The Secretary of State considered (in his reasons) that the TTT Project (which is approximately 25km long, passes through central London and goes under a large number of both underground and above-ground assets) has a construction risk profile which is higher than TWUL's normal construction works, and is higher – both in total and per km of construction – than the Lee Tunnel Project, whose course takes it under fewer valuable assets. If delivered by an IP, this risk is concentrated in the £2.8bn of work that is proposed for the IP, rather than in TWUL.

### ***Management risk***

The Secretary of State also concluded in his reasons that the size of the TTT Project is likely to lead to increased management risk, as the size and rapidity of expansion of capital expenditure would put significant stress on TWUL's management and governance. The Secretary of State recognises that TWUL would have to seek increased management capacity and its governance structures would need to ensure it gave sufficient attention to the TTT Project. Given the very different nature of a construction project from

its normal business, the Secretary of State has concluded that these requirements would pose an increased risk to TWUL's ability to manage its business to a satisfactory standard.

### ***Regulatory risk***

The Secretary of State also considered in his reasons typical capital works in the sector, which can usually be completed within any one five-year price review period. However, the duration of construction of the TTT Project will extend beyond a single regulatory period. The Secretary of State noted in his reasons that this would mean that unless adaptations to the regulatory regime were made, TWUL would need to commit to a substantial proportion of the investment without knowing what return it could expect.

The Secretary of State considered in his reasons that if the TTT Project were to be undertaken within TWUL, the foregoing factors would increase the company's risk profile to the extent that it would threaten its ability to provide services to its customers. The Secretary of State considered that the likely consequence for TWUL's credit rating should it undertake the TTT Project would be that TWUL's rating would be downgraded, with a significant risk that it could lose its investment-grade rating in the absence of mitigating action. The Secretary of State also notes that this downgrade would take place at the time TWUL was trying to access the markets for the large quantities of capital required to build the TTT Project. Without remedial action to restore TWUL to investment grade, those capital markets would almost certainly be closed to TWUL. The market for sub-investment grade would be unlikely to meet the need.

The Secretary of State also notes in his reasons that in this situation (i.e. credit rating downgrade) it is likely that TWUL would breach an appointment condition (such as the requirement to use reasonable endeavours to ensure that it maintains an investment-grade credit rating) or statutory duty, which could, in turn, lead to its being placed in special administration. The Secretary of State further considered in his reasons that the reasonable possibility that undertaking the TTT Project within an established WASC could lead to special administration illustrates one threat to TWUL's continued ability to provide services to its customers, which leads to him concluding in his reasons that the scale and risk profile of the TTT Project make it likely that if it were undertaken by TWUL without Government intervention, TWUL would have its credit rating downgraded, probably to sub-investment grade, and would be unlikely to be able to raise sufficient finance to remedy this and meet its TWUL Licence conditions at a cost that would be acceptable to customers. In his reasons, the Secretary of State has therefore concluded that the TTT Project is of a size or complexity that threatens TWUL's ability to provide services to its customers and so meets the Size or Complexity condition set out in the Regulations.

### ***The VfM condition***

The VfM condition, set out above, requires the Secretary of State to compare the likely VfM of the TTT Project delivered within TWUL with the likely VfM of the TTT Project delivered by an Infrastructure Provider. It requires the Secretary of State to take into account the likely costs to customers and the likely costs to taxpayers.

In his reasons, the Secretary of State concluded that it is likely that delivery of the TTT Project through an Infrastructure Provider would lead to better value for money for customers than if the TTT Project were to be delivered through TWUL. The main reason for him reaching this conclusion was that if the TTT Project were delivered through TWUL, the TTT Project's higher than usual risks would affect the entirety of TWUL's business and so would increase the cost of financing for all of TWUL's investments. This risk is concentrated in the works associated with the £2.8bn of costs proposed to enable up to £1.4bn of the TTT Project to be undertaken by TWUL through a Preparatory Work Notice. It is also likely that delivery of the TTT Project through either scenario would require the taxpayer to take on similar contingent liabilities.

But the consequences of those risks materialising would be likely to be greater if the TTT Project were delivered through TWUL with the taxpayer exposed to greater costs.

The Secretary of State therefore concluded in his reasons that specifying the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project were not specified, including taking into account:

- (a) the charges fixed or likely to be fixed under Chapter 1 of Part 5 of the WIA (financial provisions, charges); and
- (b) the powers of the Secretary of State under section 154B of the WIA (financial assistance for major works).

### ***Project Specification Notice and Preparatory Work Notice***

Alongside the specification consultation, the Secretary of State also consulted on his draft reasons for issuing a Preparatory Work Notice and published a draft Preparatory Work Notice. The Secretary of State issued the Project Specification Notice and Preparatory Work Notice on 4 June 2014 specifying the TTT Project and setting out the preparatory works that TWUL is permitted or required to undertake in relation to the TTT Project. The Secretary of State also issued a final reasons paper at this time. Now that the TTT Project is specified, the incumbent undertaker is prohibited under Regulation 5 from undertaking that infrastructure project, except to the extent that TWUL is permitted or required to undertake the activities set out in the Preparatory Works Notice. The Secretary of State and Ofwat may vary or revoke the Project Specification Notice or Preparatory Works Notice under Regulations 4 and 5 respectively.

### ***Obligation to tender***

Regulation 6 requires the incumbent water or sewerage undertaker to put a specified infrastructure project out to tender. The ordinary procurement rules may apply to such a tender. Where those rules do not apply or in certain other circumstances, the SIP Regulations apply (with modifications) certain provisions of the Utilities Contracts Regulations 2006 (S.I. 2006/6) for that tender process. Those provisions are set out in Schedule 2 to the SIP Regulations. TWUL commenced the tender process for procuring the IP, the entity which will be licensed to deliver the TTT Project, pursuant to a contract notice reference 2014/S 113 – 199543 and dated 10 June 2014 published in the Official Journal of the European Union

### ***Associated companies***

Regulation 7 prevents companies associated with the water or sewerage undertaker from bidding in the tender process except where agreed by the Secretary of State or Ofwat by notice in writing. The Secretary of State and Ofwat may vary or revoke any notice issued by them under Regulation 7. The power to issue notices is subject to certain procedural requirements and transitional provisions.

### ***Designation of an infrastructure provider***

Regulation 8 gives the Secretary of State and Ofwat power to designate by notice in writing a person wholly or partly responsible for a specified infrastructure project which has been put out to tender in accordance with the SIP Regulations. The IP may then be licensed and regulated as set out in Schedule 1 of the SIP Regulations. The Secretary of State and Ofwat may vary or revoke any notice issued by them under Regulation 8. The power to issue a IP Designation Notice and to grant a project licence is subject to certain procedural requirements.

### ***Information requirements***

Regulation 9 requires water and sewerage undertakers and infrastructure providers to provide the Secretary of State or Ofwat with such information as may be reasonably required for the purposes of carrying out their functions under the SIP Regulations.



### ***Enforcement***

Regulation 10 provides that duties on an undertaker or licensed infrastructure provider under the SIP Regulations are enforceable under the enforcement regime in WIA (as applied by the SIP Regulations).

### ***Review of effectiveness***

Regulation 11 requires the Secretary of State to review the operation and effect of the SIP Regulations and publish a report within five years after the SIP Regulations come into force. Following the review it will fall to the Secretary of State to consider whether the SIP Regulations should be allowed to expire as Regulations 1(2) and (3) provide, be revoked early, or continue in force with or without amendment. A further instrument would be needed to continue the SIP Regulations in force with or without amendments or to revoke them early.

### ***Ring-fencing***

As set out above, once a project is specified under the SIP Regulations, the incumbent undertaker must put it out to tender to a third party IP.

In particular, SIP Regulation 5 prohibits an incumbent undertaker from undertaking an infrastructure project which has been specified by the Secretary of State under Regulation 4(1) of the SIP Regulations. The prohibition is subject to an exception whereby the Secretary of State may, by notice, permit or require the incumbent undertaker to undertake preparatory works set out in a notice issued by the Secretary of State. The effect of this prohibition is to preserve TWUL's ability to provide its core services in accordance with the TWUL Licence and water industry legislation and to shield TWUL from risks arising from the carrying out of the TTT Project.

Regulation 5 of the SIP Regulations does allow the Secretary of State to permit or require an incumbent undertaker to undertake certain preparatory works. As described above, the Secretary of State issued a Preparatory Work Notice in relation to the TTT Project on 4 June 2014. This notice covers acquisition of land, carrying out of surveys, utilities diversions, obtaining the DCO, completing the specification, procurement activities and site preparation.

Thus the effect of the TTT Project being a specified infrastructure project under the SIP Regulations prohibits TWUL from undertaking the TTT Project, effectively ring-fencing risks associated with the design, construction and financing of the TTT Project in the IP vehicle.

### ***WIA section 94 obligations***

As set out above, section 94 of the WIA sets out a general obligation on sewerage undertakers to comply with the provisions of the UWWTR by providing, maintaining, emptying and disposing of the contents of the sewerage system owned by the undertaker.

Following the specification of the TTT Project, TWUL was required to "ensure all necessary arrangements are made" by putting the TTT Project out to tender, running the IP Procurement in accordance with the SIP Regulations, entering into the contractual framework with TTT Project stakeholders, and performing the emptying and treatment of sewage during the operational period of the TTT Project (through the London Tideway Improvements).

Provided TWUL complies with its obligations to ensure all necessary arrangements are made in relation to the TTT Project, as set out in the SIP Regulations (which gives effect to section 94 of the WIA with modifications) and under the relevant contracts, it should discharge its obligations under section 94 of the WIA in respect of the TTT Project by entering into the arrangements with the IP. A description of the works necessary to give effect to the TTT Project from TWUL's perspective is set out below.

### ***Enforcement of obligations***

With regard to the TTT Project tendered to the IP, enforcement of the IP's regulatory obligations to carry out the TTT Project will be carried out by Ofwat and not by TWUL. If the IP fails to deliver the TTT Project in accordance with the IP Project Licence, enforcement action would be taken against the IP. Where Ofwat fails to take enforcement action against the IP and the impacts of the IP's failure would cause TWUL to be in breach of its obligations, it is judged unlikely that Ofwat would be pursuing formal enforcement action against TWUL. This is because enforcement against TWUL would probably not be best calculated to ensure that the functions of the IP are properly carried out, and would be in contravention of Ofwat's general duties set out in section 2(2A)(c) of the WIA. To ensure that the IP functions are carried out, Ofwat would need to take enforcement against the IP. A separate enforcement guidance note will be issued jointly by Ofwat and the EA. A draft of this note titled "*Thames Tideway Tunnel – explanatory note as to Ofwat's and the Environment Agency's likely approach to enforcement*" was published for consultation on 7 October 2014.

However, TWUL remains liable where it has an obligation to perform part of the works or where it has contractual obligations or regulatory outputs to perform on its own account. In such circumstances, Ofwat or the EA, as the case may be, may take enforcement action against TWUL in the ordinary way as this would be best calculated to ensure that the functions of the water and the sewerage undertaker were performed.

### **Planning**

Under the Planning Act 2008, a DCO is required to authorise the construction and use of nationally significant infrastructure projects (an "NSIP"). Developments relating to the transfer of water resources and the construction of waste treatment plants which will exceed specified thresholds are included in the list of NSIPs. Under the Localism Act 2011, the functions of the Infrastructure Planning Commission transferred to the Planning Inspectorate ("PINS") on 1 April 2012, and to whom applications for DCOs must now be made.

The TTT Project has been designated as a NSIP and an application was made to the PINS on 28 February 2013. The DCO for the TTT Project was granted on 12 September 2014. There are some applications for judicial review of the grant of the DCO pending, which are referred to in more detail in Chapter 1 "*Risk Factors – Risk arising from the Thames Tideway Tunnel – Risks associated with the DCO*").

## **Part 3 - Implementation of the TTT Project within the legal and regulatory regime**

### ***TWUL's obligations***

TWUL is the licensed water and sewerage undertaker for the London region pursuant to the Water Industry Act 1991 (the "WIA").

As set out above, as the incumbent undertaker TWUL is prohibited by Regulation 5 of the SIP Regulations from undertaking the TTT Project, except in respect of works it is permitted or required to undertake pursuant to the Preparatory Works Notice. Pursuant to the Preparatory Works Notice, TWUL has already or will undertake a number of key activities to give effect to the TTT Project and is actively engaged in completing these activities. These key activities include:

- (a) preparing the concept and specification works and appointment of specialist consultants in respect of such works as part of its regulatory obligations pursuant to the 2009 Final Determination;
- (b) conducting preliminary site investigation works as preparatory work pursuant to the Preparatory Work Notice;

- (c) agreeing with Ofwat the strategy for acquisition of freehold and/or leasehold land and the terms on which such land is acquired and disposed as part of its regulatory obligations pursuant to the 2009 Final Determination and the TWUL Licence;
- (d) prior to the appointment of the IP, negotiating asset protection agreements with affected parties for the protection and preservation of existing third party assets which are, or are likely to be, affected by the construction of the TTT Project as preparatory work pursuant to the Preparatory Work Notice;
- (e) agreeing the strategy for obtaining planning consents as preparatory work pursuant to the Preparatory Work Notice;
- (f) as preparatory work pursuant to the Preparatory Work Notice, developing and applying for the DCO (i.e. planning permission). The DCO has now been granted;
- (g) procuring land and land rights necessary to implement the TTT Project;
- (h) as preparatory work pursuant to the proposed Preparatory Work Notice during the procurement phase, developing the procurement strategy and undertaking the IP Procurement and initiating (on behalf of the IP) the procurement of construction works;
- (i) procuring and financing enabling works and certain interface works, including appointment of appropriate contractors to carry out those works in accordance with the terms of the Interface Agreement as more fully described below in Enabling Works and Interface Works;
- (j) agreeing the scope of the TTT Project with the Environment Agency and Ofwat as part of its regulatory obligations pursuant to the 2009 Final Determination;
- (k) collecting revenue from customers and paying the IP Charges to the IP in accordance with the terms of the Revenue Agreement;
- (l) reporting to the Liaison Committee as required under the terms of the Liaison Agreement;
- (m) recognising its role in operating the TTT Project following construction and its responsibility for complying with the Environmental Permits, playing a role in the commissioning of the TTT Project to assess the ability of the TTT Project in meeting the Environmental Permits as part of TWUL's ongoing obligations pursuant to s94 of the WIA;
- (n) following completion of construction of the TTT Project, operating the overall system (i.e. the entire sewerage network), of which the TTT Project forms a part and ensuring compliance with the Environmental Permits; and
- (o) following completion of construction, maintaining the plant and equipment within the TTT Project and the Lee Tunnel in accordance with the terms of the O&M Agreement.

### ***Role of the IP***

The IP will be responsible for the design, construction and financing of the IP Works and the financing, operation and maintenance of the TTT Project civil structures (being the tunnels and shafts) but not the other TTT Project assets such as the penstocks, valves, pumps and other operational plant (for which TWUL will retain operation and maintenance responsibility).

The IP will be a special purpose vehicle set up for the purposes of delivering the TTT Project, and the TTT Project will be its regulated business. The IP will be controlled by different shareholders from TWUL, and TWUL will have no direct or indirect corporate control over the IP's activities, although it is proposed that

there will be contractual interfaces between the IP and TWUL. The IP will have no recourse to TWUL other than the contractual relationship between the two.

It is envisaged that the IP will be directly regulated by Ofwat pursuant to the SIP Regulations and the WIA and the terms of the IP Project Licence.

In order to deliver the TTT Project, the IP will need to enter into a number of contracts for works and services – for example, contracts for construction of the Thames Tideway Tunnel (the “Main Works Contracts”). The IP’s relationship with TWUL will be governed by the Interface Agreement during the works phase of the TTT project and the Operation and Maintenance Agreement during the operations phase. It will also enter into an Alliance Agreement, which TWUL is also a party to, that is intended to govern the way in which the relevant project parties will work together and incentivise behaviours to promote the overall success (specifically cost and schedule) of the TTT Project (see “*TWUL Works – The Alliance Agreement*” below for further detail). It will further enter into certain contracts in connection with Government contingent financial support, as described further below.

The IP will be responsible for raising debt and equity financing for the TTT Project. Government contingent financial support will be provided by the Secretary of State to both the IP shareholders and its debt providers. Furthermore, the IP will be required to maintain appropriate commercial insurance cover.

## **Part 4 – Impact on TWUL of the IP delivery model**

### **TTT Project management structure**

#### ***Management Structure***

A discrete, dedicated TTT Project co-ordination team is required within TWUL during the construction phase of the TTT Project to represent TWUL’s interests and oversee the meeting of TWUL’s obligations contained in the contracts executed by TWUL in respect of the TTT Project.

#### ***Capability of TWUL to deliver TWUL obligations in connection with the TTT Project***

TWUL is experienced in managing large infrastructure projects and has been investing in comprehensive and complex capital works programmes to upgrade and create new assets since privatisation in 1989. TWUL’s capital works programme comprises an annual capital investment of approximately £1 billion.

TWUL is currently in the process of delivering the Lee Tunnel as part of its AMP5 capital expenditure programme. The Lee Tunnel and current enhancements to the Beckton Sewage Treatment Works (Europe’s largest) being undertaken by TWUL are themselves a £1 billion investment.

The TWUL TTT Project co-ordination team will be responsible for matters such as:

- (a) TWUL transition;
- (b) Enabling Works (which need to be completed in advance of the commencement of the Main Works) and Interface Works (which need to be completed after the DCO has been issued), with the Enabling Works and Interface Works having a combined AMP6 budget of £211 million in outturn prices;
- (c) land acquisition;
- (d) regulatory funding; and
- (e) management of the core contracts.

The interface works with the existing sewerage system can be complex especially at pumping station sites and TWUL's operational and asset knowledge is considered key to managing the design and construction of those elements and protecting existing assets. This will be achieved by a combination of TWUL corporate resources, the TWUL capital delivery team and the TTT Project co-ordination team. In particular, the Interface Works will be overseen by the TWUL major projects team who will deliver the works under the newly-formed AMP6 Alliance. The AMP6 Alliance is an alliance comprising six experienced industry contractors (Atkins, Balfour Beatty, Costain, IBM, MWH and Skanska) who, together with TWUL, may deliver a significant proportion of TWUL's capital investment programme during AMP6 and potentially into AMP7.

### ***Support from CH2M Hill on the TWUL Works***

In 2008, following a competitive tender, TWUL appointed CH2M Hill as its project management adviser for the TTT Project and to perform programme management and performance management services, including programmatic design management, value engineering, design reviews and constructability reviews.

As programme manager, CH2M Hill is contracted to provide support through all phases of the TTT Project, including planning consents, preliminary and final design, construction management, stakeholder communication, commissioning and start-up of new facilities.

CH2M Hill has been operating in the UK for more than 22 years and has experience acting on a range of similar projects around the world, including the TTT Project's sister project, the Lee Tunnel, in East London, and to which the TTT Project will connect. The four mile Lee Tunnel is London's deepest ever tunnel and will link Abbey Mills Pumping Station to Europe's largest sewage treatment works at Beckton.

In addition to the Lee Tunnel, CH2M Hill has recent experience on the following projects:

- (a) Singapore Deep Tunnel Sewerage System – tunnelling beneath an urban environment with a wide range of geology to deliver 30 miles of sewer tunnels up to 6m in diameter and 50m deep;
- (b) Milwaukee Pollution Abatement Programme – the first successful city-wide deep-tunnel combined sewer overflow system implemented in the United States; and
- (c) Abu Dhabi Sewerage Services Company's Strategic Tunnel Enhancement Programme.

Notwithstanding its role as the project manager for the IP Works, it is currently envisaged that CH2M Hill will continue to deliver the project management services for the Enabling Works.

### **TWUL Licence modifications to accommodate TTT Project – Overview**

In order to give effect to a TTT Project delivered using an IP, the conditions in the TWUL Licence have been modified to:

- (a) allow TWUL to include the IP Charges in its charges scheme;
- (b) allow TWUL to request Ofwat to provide an estimate of the IP Charges where the IP Project Licence has not been awarded by 15 September 2015;
- (c) allow TWUL to pass through revenues collected in respect of the IP Charges collected from TWUL's wastewater customers as calculated and adjusted in accordance with the Revenue Agreements;
- (d) allow TWUL to pass through to TWUL customers the reasonable cost associated with any disposal of TTT Project land on the basis of no pain/no gain;

- (e) allow TWUL to refer to Ofwat for determination of a dispute with the IP regarding a mandatory variation;
- (f) exclude the IP assets from TWUL's asset management plans;
- (g) exclude the revenue in respect of the IP Charges from TWUL's revenues for the purposes of determining the level of any fines or the materiality threshold in any interim determination or substantial adverse effect or substantial favourable effect application; and
- (h) provide for mechanisms to deal with revocation of the IP Project Licence or Project Specification Notice, or termination of the Revenue Agreement.

#### ***TWUL Licence modifications – Detail***

The TWUL Licence has been modified in order to facilitate the SIP Regulations, the specification and performance of the TTT Project and the designation and licensing of the IP. These modifications have been agreed as between TWUL and Ofwat and made by way of modifications to existing Conditions A, B D and L and insertion of a new Condition T into the TWUL Licence. Broadly, these modifications set out:

- (a) the modifications to existing Condition A (Interpretation and Construction), Condition B (Charges), Condition D (Charges Scheme) and Condition L (Underground Asset Management Plans); and
- (b) the insertion of new Condition T, which, amongst other things, sets out new provisions which will apply on revocation of the Project Specification Notice.

These modifications, which came into effect on 1 April 2015 unless otherwise stated, are described in further detail below.

#### ***Condition A – Interpretation and Construction***

Condition A sets out the defined terms and the rules of interpretation for the TWUL Licence conditions.

Various new definitions will be inserted to support the modifications.

The definition of “Regulated Activities” in paragraph 3 of Condition A will be amended to expressly carve out the functions of the IP in carrying out and completing the TTT Project and maintaining the TTT Project assets as set out in the Project Specification Notice. This modification will not come into effect until award of the IP Project Licence.

The purpose of this modification is to ensure that TWUL's obligations in respect of its “Regulated Activities”, for example in relation to accounting and reporting or payment of fees to Ofwat, do not apply in respect of the activities the IP undertakes pursuant to the IP Project Licence.

#### ***Condition B – Charges***

Condition B sets out the charges regime whereby Ofwat conducts periodic reviews every five years to set price controls for the charges to be levied by TWUL to its customers.

Condition B has been amended to enable TWUL to collect from its sewerage customers the IP Charges and to then automatically pass those charges on to the IP.

Specifically, the modifications, among other things:

- (a) enable TWUL to levy charges for the purpose of collecting the IP Charges calculated pursuant to the IP Project Licence for the relevant charging year and to be paid by TWUL to the IP pursuant to the Revenue Agreement;

- (b) provide for the amount which TWUL must collect to automatically update for any change in the IP's Allowed Revenue under the IP Project Licence;
- (c) require TWUL to pass the relevant amounts to the IP on a monthly basis in accordance with the Revenue Agreement;
- (d) ensure that collection of the IP Charges shall not be deemed to constitute funding for TWUL to carry out the TTT Project;
- (e) allow TWUL to rely on the most recent IP Charges notified to it by the IP as at 1 December prior to the relevant charging year; and
- (f) provide that Ofwat consent is required for any change to the Revenue Agreement.

Condition B will also be amended to ensure that it reflects the arrangements for disposals of land as required by the TTT Project (including the agreed principle of “no pain/no gain”, whereby both gains and losses arising from acquisition, rental or disposal of TTT Project land are not of benefit to, or borne by, TWUL but are instead passed to customers).

#### ***Condition D – Charges Schemes***

Condition D relates to the charges scheme which TWUL is required to produce under section 143 of the WIA in order to give effect to TWUL's charging powers under section 142 of the WIA. Among other things, Condition D requires TWUL to ensure that its charges scheme “fixes the charges to be paid for the drainage of premises for domestic purposes” (unless TWUL already has agreements in place with all the customers being charged).

A new paragraph 2.1(3) has been inserted into Condition D to enable TWUL's charges scheme to also fix the charges to be collected by TWUL in respect of the IP's Allowed Revenue.

#### ***Condition L – Underground Asset Management Plans***

Condition L requires TWUL to prepare and submit an Asset Management Plan to Ofwat showing an estimate of the required expenditure on “Network Assets” for each year as is necessary to enable TWUL to carry out the Regulated Activities (as defined in Condition A).

The definition of “Network Assets” in Condition L will be amended to expressly carve out the TTT Project structures which are owned, operated and maintained by the IP (including the tunnels and shafts) under the terms of the Project Specification Notice and the O&M Agreement.

The purpose of this modification is to ensure that TWUL's obligations with respect to its Asset Management Plan do not extend to TTT Project structures owned by the IP.

This modification will not come into effect until award of the IP Project Licence.

#### ***Additional new provisions***

In addition to the modifications to existing Conditions outlined above, the new Condition T sets out new provisions which will apply in certain TTT Project failure scenarios, namely revocation of the Project Specification Notice or of the IP Project Licence. New Condition T will also set out provisions that will apply where the Revenue Agreement is terminated.

The purpose of these new provisions is to clarify TWUL's obligations in a TTT Project failure scenario (and in particular, the cessation of the modification to Condition B which requires TWUL to collect the IP's allowed revenue, described above).

Specifically, these new provisions in Condition T will provide that:

- (a) TWUL may request Ofwat to provide an estimate of the IP Charges where the IP Project Licence has not been awarded by 15 September 2015, in order to allow TWUL to begin collecting the IP Charges from the commencement of the 2016/2017 charging year even where award of the IP Project Licence is delayed;
- (b) TWUL may pass through to its customers the reasonable cost associated with any disposal of TTT Project land on the basis of no pain/no gain;
- (c) TWUL may refer to Ofwat for determination a dispute with the IP regarding a mandatory variation;
- (d) if the Project Specification Notice is revoked:
  - (i) the modifications to the TWUL Licence which relate to the TTT Project (as outlined above) automatically fall away, including TWUL's obligation to collect the IP Charges; and
  - (ii) Ofwat will, having consulted TWUL, direct TWUL as to the treatment of any IP Charges collected by TWUL which TWUL has not already passed on to the IP;
  - (iii) TWUL is not obliged to complete the TTT Project but is required, under the terms of the Liaison Agreement, to secure and make safe the TWUL Works (but, for the avoidance of doubt, not the IP Works) and then under the terms of the Instrument of Appointment and the Liaison Agreement within six months to present a proposal to the Secretary of State for Environment, Food and Rural Affairs and Ofwat which addresses the issue of sewage discharges into the river Thames with a view to securing compliance with the Urban Waste Water Treatment Regulations. TWUL is not required to implement its proposal or to accept any elements or assets included in its proposal unless additional funding has been awarded to TWUL through either a determination by Ofwat pursuant to the regulatory settlement process or following a reference to the Competition and Markets Authority which:
    - (1) must consider, and be considered in view of, specified factors, including the obligations of TWUL, Ofwat and the Secretary of State pursuant to the WIA and the TWUL Licence, and the need for TWUL to finance its functions; and
    - (2) may include elements and assets of the TTT Project as TWUL deems appropriate, the implementation of which is subject to TWUL having been awarded additional funding through either a determination by Ofwat or following a reference to the Competition and Markets Authority pursuant to Condition B, however TWUL is not contractually obliged to undertake completion of the TTT Project; and
  - (iv) Ofwat will not require TWUL to accept a transfer of IP regulated assets unless (a) those assets were included in TWUL's proposal (which has been funded), and (b) such transfer is directed at no cost to TWUL;
- (e) If the IP Project Licence is revoked in circumstances where the Project Specification Notice is not revoked, Ofwat may, having consulted TWUL, direct TWUL as to:
  - (i) the extent to which the modifications to the TWUL Licence which relate to the TTT Project (as outlined above) still apply; and



- (ii) the treatment of any IP Charges collected by TWUL which TWUL has not already passed on to the IP; and
- (f) if the Revenue Agreement is terminated, Ofwat may, having consulted TWUL, direct TWUL as to the treatment of any IP Charges collected by TWUL which TWUL has not already passed on to the IP.

## **TWUL Works**

### ***PR14 Settlement***

The procurement and delivery of the works are divided between TWUL and the IP each of whom will be responsible for the financing of its works.

### ***Development of the TTT Project and procurement***

The construction works to be delivered have been divided into three categories:

- (a) Main works (“Main Works”) will be delivered by the IP and comprise the main works to be undertaken by the IP. This is predominantly the drop shafts, main tunnel, connection tunnels drive, receive and intermediate shafts, CSO connections, MEICA, marine logistics and associated works, SCADA and river boat relocation. These works will be funded by the IP. The Main Works will be delivered by the IP via three Main Works Contracts (design and build contracts using the NEC3 form of contract) – East, Central and West. A MEICA framework contractor acts as a sub-contractor to each Main Works Contractor to ensure standardisation across all sites and a SCADA contractor will be responsible for integrating each of the sites into a single CSO control system.
- (b) Enabling works (“Enabling Works”) will be delivered by TWUL and are enabling works which do not require the DCO to be granted. These works will be funded by TWUL under its 2014 Final Determination and are business as usual works. The Enabling Works are predominantly utility diversions, power supply provision at main drive sites, surveys, site preparation and protection of some third party infrastructure (e.g. TWUL Ring Main) and will be delivered via contracts let by TWUL some of which may be novated to the IP if not completed by the date of IP Project Licence award.
- (c) Interface works (“Interface Works”) will be delivered by TWUL and are mainly interface works with the existing TWUL infrastructure which require the DCO to be granted. These works will be funded by TWUL under its 2014 Final Determination and are business as usual works. The Interface Works are predominantly works which interface with TWUL’s existing assets and are likely to be delivered via TWUL’s AMP6 Alliance arrangements.

### ***Enabling Works***

The enabling works are those works required to be undertaken by TWUL prior to the commencement of the main and interface works, and are expected to include such activities as site preparation (including getting power to the sites), demolition, remediation, utility works (diversion and supply) and surveys. As stated above, these are business as usual works.

The enabling works are currently required or permitted to be performed by TWUL under the Preparatory Work Notice which sets out the preparatory works TWUL is permitted or required to carry out.

Enabling Works include:

- (a) key utility diversions (assuming utility companies are willing and able to carry out such works under their powers of permitted development);

- (b) power supply to main tunnel drive sites;
- (c) surveys (e.g. archaeological; asbestos; heritage; condition);
- (d) site preparation (minor demolition, clearance work and access roads within TWUL operational sites) pending compliance with planning legislation; and
- (e) protection of third party infrastructure (Thames Water Ring Main).

It should be noted that the Enabling Works have been commenced by TWUL but some (such as survey requirements, boats relocation and marine training) may be passed to the IP from IP licence award or when it takes control of the sites.

These works are under way and are scheduled to complete in October 2019 and they are the types of works which TWUL is accustomed to deliver as part of its core business.

### ***Interface Works***

Interface Works are modifications at existing TWUL sites and to the existing sewerage system. The works required at each of the sites are different, depending on the conditions within and surrounding the relevant interface point.

The works to be procured and financed by TWUL (through the AMP6 Alliance) are discrete packages, readily separable and/or independent from the main works, typically on land owned by or accessible to TWUL, and/or able to be progressed independently of the main works. The AMP6 Alliance that will be contracted to carry out these works will be monitored by the TWUL capital delivery team who will assist in planning the Interface Works and monitor and review execution to ensure they are completed to the required standard and will enable the acceptance tests to be passed. TWUL will procure and finance various aspects of the Interface Works in order to facilitate and enable the main construction works. These aspects include:

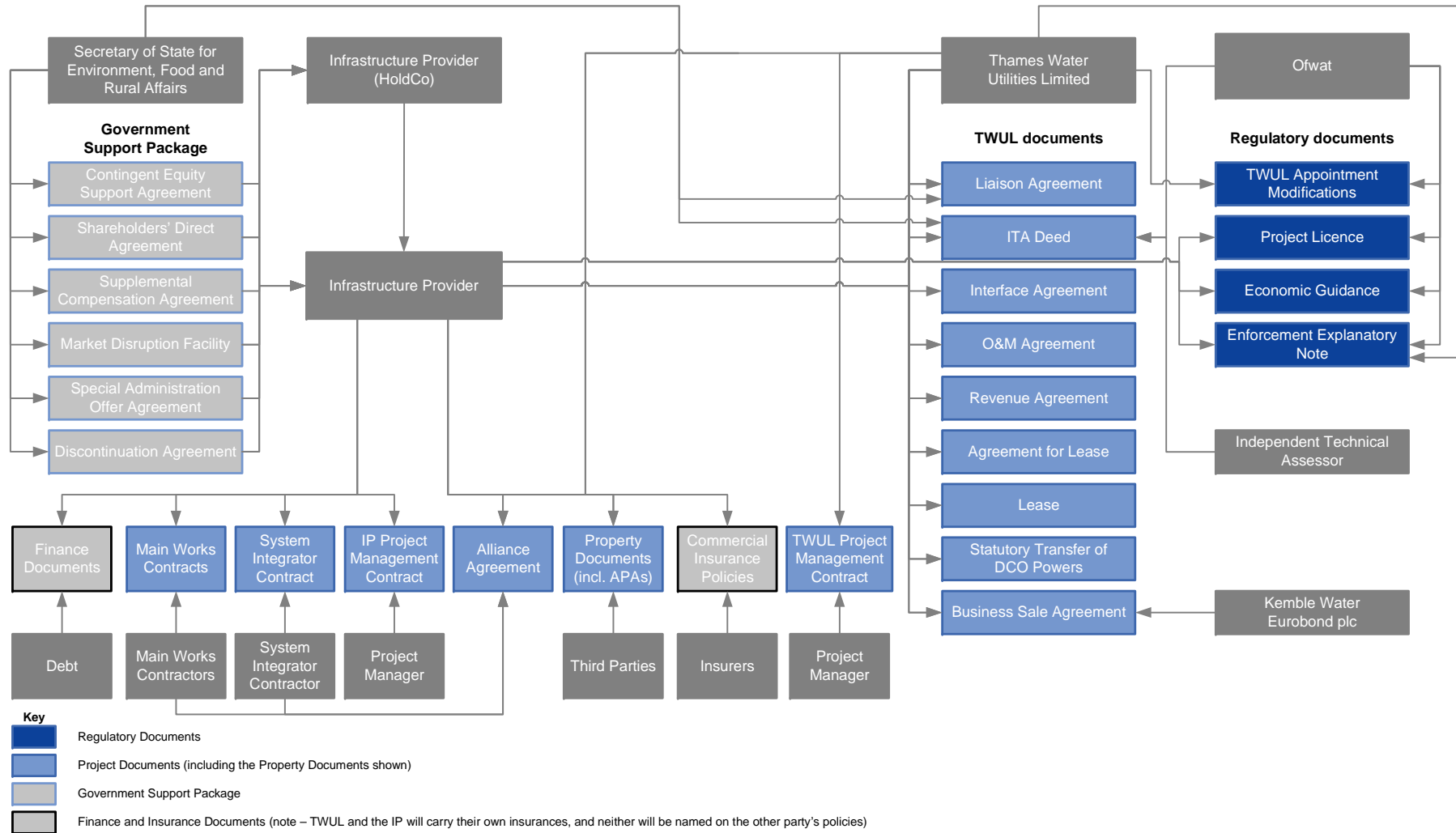
- (a) works at Shad Thames Pumping Station – including diversion, protection or abandonment of existing TWUL assets and diversion of other utilities and privately owned services;
- (b) works at Bekesbourne Street – works to modify the existing sewer, including installation of a new chamber and hydraulic structures within the sewer, installation of an electrical control kiosk and ventilation works;
- (c) works at Beckton Sewage Treatment Works – these works encompass a significant element of Mechanical Electrical Instrumentation Controls Automation (“MEICA”) to enable flows to be transferred to the head of Beckton sewage treatment works and/or the tunnel from the existing Lee Tunnel pumping station;
- (d) Sewerage system CSO weir adjustments at eight sites; and
- (e) Western Pumping Station operational adjustments.

In addition to the works set out above, TWUL will also be providing services to assist in the delivery of the TTT Project, such as the procurement of the construction contracts, the DCO planning application and the land acquisition services, which are described more fully below. TWUL has included the costs of providing such services within its 2014 Final Determination.

### **Summary of the TTT Project contractual structure**

In order to facilitate the IP delivery model, TWUL will need to enter into the following contracts as set out in the diagram below.

## TTT Project – Overview of Contractual Structure



A short summary of the contents of those agreements is contained below.

### ***Business Sale Agreement***

In order to maximise the competition for the IP, TWUL has set up a separate division for the IP Procurement and a special purpose vehicle owned by the Kemble Group (to manage certain transition activities and avoid conflicts of interest in the transition phase). As part of the IP Procurement, the Kemble Group is in the process of enabling a smooth transition to the incoming IP by setting up a number of systems, including IT and payment systems, employment of key staff for the IP and employment of a management team (including chief executive officer, chief financial officer, chief operating officer, general counsel and company secretary). In order to transfer the benefit of these arrangements to the IP, TWUL and the Kemble Group will enter into a business sale agreement to transfer over to the IP any assets held by, and employees of, the TWUL division which are necessary for the IP in order to enable it to continue to develop the project and which are not required by TWUL. The nature and extent of the assets is limited in scope to information systems, employment contracts and the lease of the current office premises of the TTT Project.

### ***Interface Agreement***

TWUL will manage the operational interface of the TTT Project with the rest of the sewerage system. This will be relevant during construction, commissioning and operation, as the works as well as the completed asset will connect to the live sewerage network and thus will involve an element of operational interface. The IP will procure the main tunnelling works and TWUL provides certain enabling and interface works.

The interface agreement (the “Interface Agreement”) regulates the relationship between TWUL and the IP during the design, construction, testing, commissioning and acceptance phases of the TTT Project.

Under the Interface Agreement TWUL will grant the IP a construction licence over certain TWUL-owned land to enable the IP to conduct the IP Works.

The Interface Agreement sets out certain requirements (the “Project Fixed Requirements”) which TWUL has developed and, for those requirements relevant to the EA, agreed in conjunction with the EA. The Project Fixed Requirements include: (i) the characteristics of the sewer network (including physical location and configuration of the sewer network and the scope and specification of the Lee Tunnel); (ii) sewage characteristics and design flows; (iii) which CSOs are to be controlled or influenced by the TTT Project; (iv) the catchment model; (v) the requirement for minimum storage volumes of the London Tideway Tunnels and the Thames Tideway Tunnel; (vi) the diameter, gradient and alignment of the tunnels forming the Thames Tideway Tunnel; (vii) the requirements of each of the Environmental Permits and the Operating Techniques for the Thames Tideway Tunnel; and (viii) the terms of the DCO. The IP is required to develop the designs in respect of the IP Works in accordance with and in order to ensure that the IP Works are consistent with the Project Fixed Requirements.

Although TWUL is responsible for ensuring compliance with the Environmental Permits and the Operating Techniques, under the terms of the Interface Agreement the IP is obliged to support TWUL in so doing and to design and construct the IP Works and ensure integration with the TWUL Works so that the Environmental Permits and the Operating Techniques are capable of being satisfied.

Each of TWUL and the IP will be responsible for commissioning the works it has constructed. Following successful commissioning of the TTT Project infrastructure, the IP will apply for a Handover certificate.

Once the TTT Project and the existing sewer network has been observed in the required range of climatic and operational scenarios and has been optimised in accordance with a System Acceptance Plan developed between TWUL and the IP, the IP may apply for a System Acceptance certificate.

Following the issue of the System Acceptance certificate, the IP will transfer to TWUL all permanent assets constructed by the IP other than the IP Owned Structures (which remain with the IP).

The Interface Agreement will contain indemnities granted by each of TWUL and the IP in favour of the other.

#### ***The asset protection agreement between TWUL and the IP***

TWUL will also be the beneficiary of an asset protection agreement from the IP, in which the IP will agree to indemnify TWUL for damage caused to its existing assets caused by the IP and the IP Works subject to a cap of £500,000,000 in respect of each occurrence or series of occurrences arising out of one event in respect of the cost of repair and replacement of damage to TWUL assets. There is an exception in respect of any financial losses suffered by TWUL or a third party as a result of damage to existing TWUL assets while in the care, custody and control of the IP, such that the IP's indemnity obligations apply only insofar as the loss is recoverable under the IP's insurances or pursuant to the Government support package.

#### ***The Alliance Agreement***

The Alliance Agreement will be entered into by TWUL, the IP and each of the contractors for the Eastern Main Works Section, the Central Main Works Section, the West Main Works Section and SCADA and will set out the basis on which the parties will co-ordinate work schedules to perform, and manage the interfaces between, their respective activities in accordance with the TTT Project master programme. The entity responsible for the integration of the SCADA, known as the System Integrator Contractor, once it is appointed following IP Project Licence award, shall accede to the Alliance Agreement.

The Alliance Agreement also provides a mechanism for the parties to manage the cost and schedule risks involved in performing the IP Works and TWUL Works, through three discrete levels of performance assessment which result in pain/gain sharing. One of these levels includes TWUL, and is assessed on the basis of (1) achieving specified key project milestones throughout the construction, commissioning and operating period; and (2) a cost incentive assessed on meeting budget and timely delivery of the TTT Project, which will be payable to all parties and linked to the total costs of the TTT Project (on a P50 basis)). The maximum exposure of TWUL under the Alliance Agreement is likely to be approximately £28m.

TWUL is also subject to ODIs in respect of delays in delivery of sites where TWUL Works are to be carried out and handed over to the IP. Any potential penalties which arise will be calculated annually and applied to the total five-year position in 2015-20. The delay penalty will apply to any site which is handed over in a later financial year to that in which it was committed to in the Baseline Project Master Programme agreed at the end of the OCI Period (each as defined in the Alliance Agreement). The granting of access to the IP and the acknowledgement of acceptance will be confirmed through both parties signing and dating an agreed certificate.

Ofwat specified in its 2014 Final Determination that any site-specific penalties for delays incurred by TWUL in the period 2015-16 to 2019-20 in relation to the Alliance Agreement may be netted off against the penalty incurred through the performance commitment, subject to sufficient regulatory oversight.

#### ***Liaison Agreement***

The Liaison Agreement is an agreement between TWUL, the IP and the Secretary of State and governs the relationship between the various TTT Project documents to be entered into by the parties. TWUL, the IP and the Secretary of State form the "Liaison Committee" and Ofwat and the EA may be invited to attend its meetings.

The Liaison Agreement sets out the framework for the Liaison Committee; a forum through which stakeholders can engage on issues affecting the TTT Project. TWUL and the IP are required to report, at least quarterly, to the Liaison Committee on a wide variety of matters affecting the TTT Project, including, amongst other things, expenditure on the works; predicted cost overruns; any delays to timetable; and claims. Annexed to the Liaison Agreement are procedures for dispute resolution and variations.

The Liaison Agreement sets out the role of the independent technical adviser in scrutinising the IP's submissions to the Liaison Committee and stipulates the mechanism for dealing with any predicted cost overruns on the IP Works.

The Liaison Agreement also describes the obligations of TWUL, the IP and the Secretary of State in circumstances in which the TTT Project is discontinued or the Project Specification Notice is revoked.

### ***Operation and Maintenance – the O&M Agreement***

The operation and maintenance agreement is an agreement between TWUL and the IP and regulates the relationship between TWUL and the IP from the System Acceptance date until the agreement is terminated (the “O&M Agreement”).

It is proposed that the IP will operate and maintain the IP Owned Structures (primarily comprising the civil structures of the TTT Project, being the tunnels and shafts) in such manner as to keep them free from sediment and allow flows to pass along the tunnel up to the connection with the Lee Tunnel whilst maintaining the total storage volume in the tunnel and shafts.

The principal maintenance activity undertaken by the IP will be the inspection of the TTT Project (anticipated to be on a 10-year cycle). Inspection of the TTT Project will generally comprise:

- (a) isolation and lockdown of tunnel system from existing network;
- (b) confirmation of lockdown via site visits and control system; and
- (c) provision of access man-riders and cranes; temporary site compounds; excavation (where necessary) and removal and subsequent replacement of access covers; ventilation and atmosphere monitoring system; determination of sediment accumulation amounts and plan for removal; inspection vehicles; inspection team and support staff; cameras, survey and recording equipment; and inspection report and supporting documentation.

TWUL will assume responsibility for operating and maintaining all TTT Project assets other than those operated and maintained by the IP (including penstocks, flap-valve and interception chambers, air management systems MEICA and SCADA) as part of its ongoing responsibilities to operate and maintain the sewer network as a whole. TWUL will also undertake the operation of the overall London Tideway Improvements (including inlet gates and pumping stations etc.) and ensure compliance with the Environmental Permits and Operating Techniques. The IP will support TWUL in complying with the Environmental Permits and Operating Techniques.

Under the O&M Agreement the IP grants TWUL an irrevocable right at all times to use the IP Owned Structures.

The O&M Agreement will contain indemnities granted by each of TWUL and the IP in favour of the other.

### ***Revenue Agreement***

The Revenue Agreement is an agreement between TWUL and the IP. Under the provisions of the SIP Regulations, the IP is entitled to fix the IP Charges for any services provided in the course of carrying out its functions, demand and recover those charges from two potential customers, namely:

- (a) any undertaker which has an agreement with the IP for the supply of sewerage services or works or any undertaker which has the use of any infrastructure which the IP owns or operates; or
- (b) following construction of the TTT Project, the occupiers of premises which:
  - (i) are drained by a sewer or drain connecting, either directly or indirectly, with infrastructure which is owned or operated by the IP; or
  - (ii) benefit from facilities that drain to a sewer or drain connecting, either directly or indirectly, with infrastructure which is owned or operated by the IP,

unless this is excluded by any agreement to which the IP is a party.

These charges can be effected through either a charges scheme approved by Ofwat or by agreement with the persons to be charged.

For the purposes of this TTT Project, it has been agreed that the IP will charge by agreement and will do so by entering into the Revenue Agreement with TWUL pursuant to which:

- (a) the IP will charge TWUL for the services it provides;
- (b) TWUL will recover those charges from wastewater customers (whether directly or through its arrangements with the WOCs); and
- (c) TWUL will only be liable to pay the IP under the Revenue Agreement to the extent it has received those charges from customers or WOCs.

As set out above, the TWUL Licence has been amended to include pass-through provisions which allow TWUL to recover the IP Charges from customers. TWUL will be allowed to raise a sum equivalent to the IP Charges in addition to charges for its own services, and therefore any increase in the IP Charges payable by TWUL under the Revenue Agreement will result in an automatic and commensurate increase in the amount TWUL will be entitled to charge wastewater customers under the TWUL Licence.

Under the terms of the Revenue Agreement, in any given month, TWUL's liability will be to pay a proportion of the revenue collected from customers or the WOCs to the IP. This amount will be the proportion which, in any year, the IP Charges bear to the sum of the IP Charges and the TWUL wastewater charges.

As stated above, the IP Charges will be collected by TWUL on behalf of the IP, and passed through on a monthly basis. The IP Charges will be included in TWUL's customers' bills, but there will be no separate bills and there will be no separate itemisation of the IP Charges on customers' bills. Accordingly, each month, TWUL will pay to the IP its share of any invoices paid by TWUL wastewater customers in that month, adjusted where required by the Revenue Agreement, for example to add 2 per cent. interest for late payments by TWUL, to correct an overpayment by TWUL, or to set off amounts due and payable by the IP to TWUL under the asset protection agreement between the IP and TWUL. The Revenue Agreement sets out in detail the processes for calculation of the IP revenue payment, invoicing and payment. At the end of each month, TWUL prepares a draft monthly payment statement which sets out the IP revenue payment and meets with the IP to finalise that statement. The IP then issues TWUL an invoice for the amount set out in the statement, and TWUL is required to pay that invoice within 20 business days of receipt.

### ***Overview of Land agreements***

The IP requires interests in certain land in order to carry out its functions. TWUL also needs certain land interests in order to carry out its functions. The necessary land interests (both surface and subsoil) required

during the construction phase are being acquired by TWUL either pursuant to the powers available under the DCO or by private agreement. TWUL has made substantial progress in acquiring necessary land interests by private agreement, including the three main tunnel drive sites. These land interests are being acquired by a combination of freehold, leasehold and by obtaining temporary rights depending on a best value for money acquisition strategy. Compulsory purchase powers conferred on TWUL under the DCO will assist the acquisition of remaining sites.

To secure land pursuant to the compulsory purchase powers for the operational phase, it must be demonstrated that the land or land interest is required for the future operation of the TTT Project. In addition, the land or interest to be acquired must be no more than, in respect of no greater interest than, nor acquired for any longer than, is reasonably necessary for the TTT Project.

### ***Proposed structure of land interests***

Subject to confirmation from Her Majesty's Revenue and Customs as to the tax treatment in respect of the following structure, it is currently envisaged that the land interests will be structured as follows:-

Prior to the IP Project Licence award, TWUL will acquire most/all of the land required for the construction of the TTT Project.

During the construction phase in respect of the surface land where TWUL has a freehold or leasehold interest, TWUL will retain the freehold or leasehold interest of the titles and grant a construction licence to the IP under the Interface Agreement. Where any additional land included within the limits of land available for use under the DCO is required for either the works, TWUL will be able to exercise its temporary use powers under the DCO and the IP will have the benefit of the same temporary use powers under the DCO pursuant to the statutory transfer of powers to be granted at the IP Project Licence award. The exercise of DCO powers between TWUL and the IP will be regulated under the DCO protocol scheduled to the Interface Agreement. TWUL has been funded for compensation costs in relation to the exercise of temporary use powers by the IP under the DCO as well as any compensation costs in relation to its own exercise of the temporary use powers.

During construction in respect of the subsurface land, the IP will either occupy this land pursuant to the DCO powers transferred to it by TWUL on the IP Project Licence award or pursuant to private treaty arrangements entered into by TWUL.

In respect of the operational land, TWUL will grant an Agreement for Lease at the IP Project Licence award, which will provide for the requirement to grant a long-term lease to the IP once:

- (i) completion of the construction of the assets has occurred; and
- (ii) TWUL has the necessary interests vested in it using the vesting powers granted under the DCO.

The lease to be entered into will be for a long period (999 years) and will include in the demised premises the protective sleeve around the TTT Project route along with the permanent rights over surface land required to access the IP Owned Structures.

Following construction completion, TWUL and the IP and TWUL will identify excess land not required for operation and the exact land and the permanent rights required for operation. The excess land will be disposed of by TWUL in accordance with its land disposal strategy and TWUL will vest the land and permanent rights (identified under the process provided in the Agreement for Lease) pursuant to the vesting powers under the DCO (which cannot be transferred to the IP).

The DCO construction powers will have expired on the handover date. However both TWUL and the IP will have the benefit of the maintenance powers under the DCO to the extent these are required.



From the date of grant of the lease the IP will grant a licence to TWUL to enter upon the land, sub-soil and structures comprising the IP Owned Structures and the areas demised by the lease solely for the purposes of operating and maintaining the TWUL assets and carrying out its obligations under this O&M Agreement.

### ***Protected Land***

All land associated with the TTT Project will be protected land within Condition K of the TWUL Licence or the IP Project Licence. This means that the land cannot be disposed of except with regulatory and statutory consents.

Land acquisition costs go to TWUL's RCV and are recovered from TWUL's customers on a "no pain/no gain" basis. The principle of no pain/no gain has already been agreed between the parties and has been captured in an amendment to the TWUL Licence.

### **Third party liabilities**

#### ***Asset Protection Agreements***

TWUL and the IP will be party to asset protection agreements ("APAs") entered into with affected parties for the protection and preservation of existing third party assets which are, or are likely to be, affected by the construction of the TTT Project. TWUL and the IP will also be party to an APA for the protection and preservation of the assets comprising TWUL's operational network.

It is intended that, on appointment of the IP, TWUL will transfer the APAs (other than the agreement in respect of TWUL's assets) to the IP and will only retain residual liability in respect of such APAs insofar as it relates to the TWUL Works. The APAs have been drafted so as not to require counterparty consent to a transfer to the IP, although in some cases TWUL is required to provide evidence of the IP having at least an investment grade credit rating. In any event, TWUL is under no obligation to undertake work other than that relating to the TWUL Works.

#### ***Land Compensation Claims***

Third parties whose interest in land is affected by the TTT Project may be entitled to compensation. Compensation will be available in respect of certain properties:

- (i) which are acquired (either all or in part) for TTT Project purposes;
- (ii) whose value is reduced due to the construction works, subsequent use of the TTT Project or interference with an owner's right associated with the property;
- (iii) where mitigation works are deemed necessary to provide additional protection from construction works in close proximity; and
- (iv) whose owners suffer loss or damage other than diminution of property value due to the TTT Project e.g. disturbance due to noise, dust, subsidence or vibration which is beyond that normally expected for a major construction operation.

These costs will be borne by TWUL or the IP and are recoverable through the regulatory regime. TWUL has included an estimate of the possible costs in its PR14 application. All properly incurred expenditure is expected to be reflected in either TWUL or the IP's RCV.

#### ***Third Party Damage***

TWUL and the IP will each grant comprehensive indemnities commensurate with the risk profile in favour of the other. These indemnities will be set out in the Interface Agreement and the O&M Agreement and will include indemnities for personal injury and loss of or damage to property owned by third parties, to

the extent such injury or damage is caused by the default, negligence or breach of duty of a party or the performance or non-performance of its obligations under the Interface Agreement and the O&M Agreement. Indemnities in respect of environmental or nuisance claims of third parties to the extent caused by or contributed to by the default, negligence, breach of duty of the IP or TWUL or the performance or non-performance of the IP or TWUL's obligations under the Interface Agreement and the O&M Agreement will also be provided. All such indemnities are intended to be backed by the insurances set out below subject to deductibles, limits and exclusions.

### ***Insurance***

The IP and TWUL will both obtain their own insurance during the construction and operations phase of the TTT Project from commercial insurance providers. TWUL will insure the early works, site preparation and the upgrades required to its existing sites whilst the IP will insure the main tunnel construction works. These insurances for the IP and TWUL will be listed in schedules to the Interface Agreement and O&M Agreement.

TWUL will be an indirect beneficiary of a Supplemental Compensation Agreement which sets out the basis on which the Secretary of State will support the TTT Project where the limits of indemnity under project insurances are insufficient in terms of quantum or one of the commercial insurances the IP is required to procure becomes commercially unavailable (except to the extent due to certain conduct or claims record). In the event of damage to TWUL assets caused by the IP, TWUL may claim under the asset protection agreement between TWUL and the IP, and the IP may meet such claims from its commercial insurances or, to the extent that the claims were beyond commercial insurances, from its rights under the Supplemental Compensation Agreement.

### ***Impact on TWUL of IP failure***

In certain circumstances following the appointment of an IP, either the IP or the TTT Project could face difficulties and ultimately fail. This section of Part 4 sets out five possible scenarios where the IP or the TTT Project could fail:

- (i) special administration of the IP;
- (ii) discontinuation of the Government contingent financial support;
- (iii) revocation of the Project Specification Notice;
- (iv) revocation of the IP Designation Notice; or
- (v) revocation of the IP Project Licence.

In each case there are clear mechanisms for how TWUL is protected in such circumstances, which are set out below.

### ***Special administration of the IP and impact on TWUL***

The regulatory protections and the Government contingent financial support in place for the IP are intended to make IP special administration remote and/or mitigate the consequences of special administration for such entity. In the event that the IP becomes insolvent for whatever reason or where Ofwat takes enforcement action for breach by the IP of a principal duty, in each case, the IP may become subject to a Special Administration Order.

If the IP enters into special administration, there are four potential exit options:

- (i) resolution exit where the IP exits as a going concern<sup>1</sup>;
- (ii) a transfer exit where the ownership of the IP is transferred to new equity providers by way of a share sale<sup>2</sup> or a transfer of the IP's assets to a new entity which would then be designated as the IP and awarded an IP Project Licence;
- (iii) the Secretary of State determines that the project is no longer economically or technically viable and pursuant to the Government contingent financial support discontinues the project by paying compensation to the equity participants and senior debt providers of the IP<sup>3</sup>; or
- (iv) the Secretary of State or Ofwat applies for a discharge of the special administration order.

If the IP is put into special administration, the form of exit will ultimately be determined by the special administrator appointed by the court and the Secretary of State and/or Ofwat, pursuant to the WIA as supplemented by the SIP Regulations.

Where there is a resolution exit, TWUL should not be affected if the IP continues and the TTT Project continues as a specified infrastructure project in accordance with the terms of the Project Specification Notice. In such scenario, TWUL will have comfort that there can be no amendments to its contracts or to the other TTT Project documents without its consent. Where there is a transfer exit through a share sale, the incoming shareholders should continue to be bound by all of the contracts between the IP and TWUL and the TTT Project will continue as a specified infrastructure project in accordance with the terms of the Project Specification Notice. As above, TWUL will be protected because there can be no amendments made to its contracts or the other TTT Project documents without TWUL's consent.

Where there is a transfer exit and the assets of the IP are transferred to a new IP entity, it is assumed that all of the obligations of the IP under the TTT Project documents will also be transferred to the new entity although the terms of any transfer arrangements will need to be approved by the Secretary of State.

Where the IP has been in special administration for more than 18 months, the Secretary of State can either:

- (i) make an offer to the special administrator to purchase the shares of the IP; or
- (ii) choose to discontinue the Government support package.

Where the Secretary of State does make an offer to purchase the shares, any of the following outcomes is possible:

- (i) the Secretary of State could continue the TTT Project, acting as the IP until such time as the TTT Project is fully built out and then seek to exit by way of a sale of the shares to a third party purchaser thereby recovering any additional costs incurred; or
- (ii) if the Secretary of State later determines that the TTT Project was no longer economically or technically viable and it could either:
  - (a) discontinue the Government support package (a "Discontinuation");
  - (b) de-specify the TTT Project (a "De-specification"); or

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<sup>1</sup> On the assumption that Section 23(2B) of the WIA will be brought into force by the IP Project Licence award and this will then apply only where the special administration order has been made as a result of the IP being unable to pay its debts.

<sup>2</sup> On the assumption that Section 23(2B) of the WIA will be brought into force by the IP Project Licence award and this will then apply only where the special administration order has been made as a result of the IP being unable to pay its debts.

<sup>3</sup> Discontinuation is not *per se* a means of existing special administration, however, discontinuation of the GSP triggers a right to terminate the IP Project Licence and termination of the project licence would presumably mean that the purpose of the special administration order no longer needs to be achieved.

(c) de-designate the IP (a “De-designation”).

***Discontinuation scenarios and impact on TWUL***

The Secretary of State and Ofwat have indicated in correspondence that there will be a presumption in favour of continuing the TTT Project to completion unless:

- (i) the TTT Project is no longer technically viable; or
- (ii) continuation of the TTT Project is economically unviable (for example, cost of a predicted overrun or an insurance event makes continuation of the TTT Project economically unviable).

The Secretary of State is entitled to issue a Discontinuation Notice in the following circumstances:

- (i) where the Liaison Committee has recommended a Discontinuation to the Secretary of State. All decisions of the Liaison Committee are required to be unanimous;
- (ii) where a Special Administration Order has been made in respect of the IP;
- (iii) where the IP has made a claim under the Contingent Equity Support Agreement and rather than put in any or any more contingent equity, the Secretary of State chooses to discontinue the TTT Project; or
- (iv) where the IP has made a claim or claims under the Supplemental Compensation Agreement in excess of an agreed threshold or the conditions for providing supplemental compensation protection in respect of unavailable insurance have been satisfied, albeit that the Secretary of State would be obliged to pay out a current claim.

The Secretary of State will be deemed to have issued a Discontinuation Notice if:

- (i) it fails to elect to either issue a Discontinuation Notice or provide contingent equity in accordance with the Contingent Equity Support Agreement;
- (ii) it fails to pay contingent equity when due in accordance with the Contingent Equity Support Agreement;
- (iii) there is a revocation by the Secretary of State of the Project Specification Notice or IP Designation Notice without a prior or concurrent revocation of the IP Project Licence; or
- (iv) it fails to make an election to either make an offer for the shares of the IP or issue a Discontinuation Notice in accordance with the Special Administration Offer Agreement.

Where the Secretary of State has issued a Discontinuation Notice in accordance with the Discontinuation Agreement:

- (i) the Secretary of State (or Ofwat) may, subsequent to such Discontinuation having been effected, revoke the IP Designation Notice and the Project Specification Notice in accordance with the SIP Regulations, subject to reasons and consultation with TWUL; and
- (ii) the other TTT Project documents will terminate in accordance with their terms.

***Revocation of the Project Specification Notice and impact on TWUL***

It should be noted that neither the Secretary of State nor Ofwat is entitled to revoke the Project Specification Notice pursuant to Regulation 4(7) unless one or both of the conditions in Regulation 4(3) cease to be satisfied. Those conditions include that the Secretary of State or Ofwat are of the opinion that:

- (i) the infrastructure project is of a size or complexity that threatens the incumbent undertaker's ability to provide services for its customers; or
- (ii) specifying the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project was not specified, including taking into account the charging regime and the powers of the Secretary of State under section 154B of the WIA (i.e. the power to provide financial assistance).

In effect, in order to de-specify the TTT Project by revoking the Project Specification Notice, the Secretary of State or Ofwat would have to be of the opinion that either the remaining parts of the uncompleted project following revocation would not affect core services or that it would be better value for TWUL to carry out or complete those remaining parts of the TTT Project.

In drafting its reasons for revoking the Project Specification Notice, the Secretary of State would have to take into account the fact that there is a subsisting project licence in respect of the TTT Project with the IP. He would also have to consult TWUL and publish draft reasons for revocation. If TWUL did not agree that the Project Specification Notice should be revoked, it would have the right to bring an action for a judicial review, if the Secretary of State was acting beyond his powers, illegally, unfairly, irrationally or disproportionately.

As set out above, the Secretary of State may at any time revoke the Project Specification Notice, if and to the extent that:

- (i) he has consulted Ofwat and TWUL and such other person he considers appropriate;
- (ii) he has taken into account the existence of a project licence in respect of the TTT Project; and
- (iii) he considers that either of the limbs set out in SIP Regulation 4(3) are no longer applicable, namely:
  - (i) that the TTT Project is no longer of a size or complexity that would threaten TWUL's ability to provide core services; or
  - (ii) that it is no longer value for money having regard to the charging regime or the Secretary of State obligations s154B of the WIA.

Whilst it is understood that revocation of a Project Specification Notice would most likely occur when there is a Discontinuation, there is no fetter on the Secretary of State's discretion to revoke the Project Specification Notice, providing the test set out in SIP Regulation 4(7)(b) applies. Equally the Secretary of State could vary a Project Specification Notice providing the same tests continue to be satisfied in relation to the varied specified infrastructure project.

It has, however, been confirmed by the Secretary of State and Ofwat that it is the intention of the Secretary of State and Ofwat that revocation of the Project Specification Notice will not occur after the Commencement Date without a prior or concurrent Discontinuation.

Where the Project Specification Notice is revoked, the provisions of Condition T in the modified Licence (as set out in detail above) will apply.

### **Tax Impact**

TWUL has taken external advice on the anticipated tax consequences for TWUL of the delivery of the TTT Project by the IP. This advice is based on the anticipated accounting treatment set out below in the section headed "Description of the TTT Project Accounting Impact".

It is expected that amounts invoiced to customers on behalf of the IP and recognised by the TWUL in its income statement will be brought into account as taxable income for corporation tax purposes. However, IP Charges paid by TWUL during the period prior to Acceptance are expected to be treated as pre-payments under a long funding finance lease and are not expected to be deductible for corporation tax purposes (under either alternative accounting analysis).

Following Acceptance, IP Charges are expected to be deductible to the extent reflected in TWUL's income statement as a finance charge under a finance lease and capital allowances are expected to be available, broadly, on the principal amount of the finance lease liability shown in TWUL's balance sheet.

Alternatively, if the Revenue Agreement is not treated as a finance lease, and the payments to the IP are accounted for as a construction contract, no corporation tax relief is expected to be available in respect of IP Charges prior to Acceptance. After Acceptance TWUL is expected to obtain corporation tax relief in respect of IP Charges, broadly in line with depreciation recognised in respect of the asset in TWUL's accounts. No capital allowances would be available to TWUL in respect of expenditure incurred by the IP.

TWUL is therefore expected to be subject to corporation tax broadly on the profit recognised in its income statement in relation to the Revenue Agreement and IP Charges, subject to any relief for capital allowances. This is likely to result in an incremental increase in TWUL's corporation tax liability during the period prior to Acceptance, and possibly beyond that period if construction accounting was to apply.

Capital allowances may be available for all or part of the expenditure incurred directly by TWUL on the design, enabling and other preparatory works for the construction of the asset. The entitlement to allowances is expected to be confirmed in a clearance application to Her Majesty's Revenue and Customs. No capital allowances or other corporation tax reliefs will be available in relation to the acquisition of land by TWUL.

Incremental corporation tax of £86 million in relation to the Revenue Agreement (based on IP Charges of £431 million) has been included in TWUL's business plan used to arrive at revenue requirements for the 2015 to 2020 period for the purposes of the regulatory charging regime. TWUL considers that corporation tax has been modelled for these on a prudent basis; in particular, it has been assumed that no capital allowances will be available on expenditure incurred directly by TWUL.

Accordingly, it is expected that TWUL will be fully funded through customer charges in respect of any incremental corporation tax arising as a result of the TTT Project and TWUL considers that the risk of any material underfunding of TWUL's corporation tax liabilities in relation to the TTT Project (e.g. as a result of materially higher IP Charges) is low.

IP Charges are expected to be subject to VAT. However, TWUL expects to recover such VAT in full.

The acquisition of land or interests in land by TWUL in connection with the TTT Project may give rise to stamp duty land tax ("SDLT") charges for TWUL. The cost of such SDLT charges is expected to be fully funded through TWUL's regulatory charging mechanism.

The arrangements between TWUL and the IP in relation to the land on which the TTT Project will be situated are yet to be finalised. The parties intend to work together to ensure that those arrangements are structured, so far as possible, so as to minimise any associated tax costs and it is anticipated that confirmation from Her Majesty's Revenue and Customs as to the appropriate tax treatment has been sought. However, it is possible that incremental tax costs to TWUL could arise as a result of these arrangements.

It is anticipated that any such incremental tax costs would be fully funded by customer charges, through either a determination by Ofwat or the Competition and Markets Authority pursuant to the regulatory settlement process. However, this cannot be guaranteed.

No other significant tax issues have been identified in relation to the TTT Project.

**Description of the TTT Project Accounting Impact**

As described in further detail above (see the section entitled “*Description of the TTT Project*”), if the TTT Project is delivered by the IP (as is currently envisaged), a contractual relationship will arise between TWUL and the IP under the Revenue Agreement. Additionally, TWUL will have the right to charge customers additional amounts in respect of IP Charges.

## **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 (following acquisitions and licence unifications) made up of 23 participants (including 10 large regional water and sewerage companies and 8 large regional water only companies) which are Regulated Companies. South West Water have recently acquired Bournemouth Water, however this is currently subject to CMA review. 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 2003, the Flood and Water Management Act 2010 and to a lesser extent various other statutory provisions. References in this section to statutes are to the WIA unless otherwise stated. On 14 May 2014, the Water Act 2014 received Royal Assent. The Water Act 2014 introduces a new, more liberalised market structure, vests more powers and responsibilities in Ofwat and makes a number of changes to water resources and environmental regulation.

##### ***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 in England and Wales and is responsible for, *inter alia*, setting price controls and monitoring and enforcing licence obligations. Regulated Companies are required by their licences to make an annual return to Ofwat (including accounts and financial information) to enable Ofwat to assess their activities.

The two principal quality regulators are the Drinking Water Inspectorate (“DWI”) (the DWI is appointed by the Secretary of State for Environment, Food and Rural Affairs) 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’s duties include the regulation of discharges to controlled waters (which include rivers, 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.

##### ***Duties of Ofwat and the Secretary of State***

Each of the Secretary of State and Ofwat has a general duty under the WIA to exercise and perform certain of its powers and duties under the WIA in the manner it considers best calculated to, *inter alia*:



- (a) further the consumer objective to protect the interests of consumers, wherever appropriate, by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services;
- (b) secure that the functions of Regulated Companies are properly carried out throughout England and Wales;
- (c) secure that Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions;
- (d) to secure that the activities authorised by the licence of a licensed water supplier and any statutory functions imposed on it in consequence of the licence are properly carried out; and
- (e) further the resilience objective to secure the long-term resilience of water supply and sewerage systems and that undertakers take steps to enable them, in the long term, to meet the need for water supplies 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 and relations with the Customer Service Committee; codes of practice and procedure on debt recovery; code of practice and procedure on leakage; levels of service and service targets; “ring-fencing” of assets and restrictions on disposal of land; underground asset management plans; the provision of information to Ofwat; fees; provision of combined and wholesale water supplies; payments to customers for supply interruptions because of drought; and customer transfer protocol. 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 (NAV)” 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 by the existing Regulated Company. 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 (as applicable) 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***

Conditions of a licence may be modified in accordance with the procedures laid down in the WIA. Subject to a power of veto in certain circumstances by the Secretary of State, 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 CMA. To date, Ofwat has never used its power to refer a licence amendment to the CMA. It is also possible for primary legislation to confer on Ofwat the power to modify the licences of a Regulated Company. To date, this has only occurred in relation to Conditions R and 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 CMA.

A modification reference requires the CMA 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 CMA 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 CMA's report will state whether any adverse effects on the public interest could be remedied or prevented by modification of the licence. If the CMA 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 CMA that the proposed modifications are not requisite for the purpose of remedying or preventing the adverse effects specified in its report, the CMA 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 Government of 2005-2010 signalled its intention to bring forward new legislation for these provisions at a later date. The Government of 2010-2015 also indicated a commitment to this proposal in the Water White Paper, published in December 2011 (see "*Regulatory Developments*" below). In the Water Act 2014, section 55 allows Ofwat to modify the conditions of Regulated Companies and licensees where such modifications are considered necessary or expedient as a consequence of amendments made by the Water Act 2014.

The CMA (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.

### ***Breach of Licence Condition***

Unintentional misreporting of properties alleviated from flooding by TWUL in June 2014 resulted in a £1 nominal fine, a voluntary contribution of £7m on measures that provide redress to its customers and a downward adjustment to the RCV of £79m. This matter was resolved as part of the 2014 Final Determination.

### ***Enforcement Powers***

The general duties of Regulated Companies as water or wastewater undertakers are enforceable by the Secretary of State for the Environment or Ofwat or both. The Licence Conditions (and other duties) are enforceable by Ofwat alone whilst other duties, including those relating to water quality, are enforceable by the DWI. Other duties, such as those in respect of water abstractions and discharges, are enforceable by the EA.

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 where:

- (a) the contraventions were, or the apprehended contraventions are, of a trivial nature;
- (b) 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) duties in the WIA preclude the making or confirmation of the order.

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

The WIA also confers powers on Ofwat or the Secretary of State to impose financial penalties on Regulated Companies and the licensees introduced by the Water Act 2003. 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. The penalty must also be reasonable in all the circumstances. The time limit for imposing such financial penalties has recently been extended by the Water Act 2014 from 12 months to 5 years. A penalty may not be imposed later than five-years from the contravention or failure except when a notice under section 22A(4) of the WIA (indicating the amount of the proposed penalty and the circumstances giving rise to a penalty) or under section 203(2) of the WIA (requiring the Regulated Company to provide information in relation to the contravention or failure) is served during that period. Where a final or provisional order has been made in respect of a contravention or failure, a penalty cannot be imposed unless a notice under section 22A(4) is served within three months of the final order or confirmation of the provisional order, or within six months of the provisional order if it is not confirmed.

## ***Special Administration Orders***

### ***(a) Circumstances***

The WIA contains provisions enabling the Secretary of State or Ofwat 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:

- (i) 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;
- (ii) where the Regulated Company is, or is likely to be, unable to pay its debts;
- (iii) 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
- (iv) 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. 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). 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 interim determination or a Substantial Effects Clause. To take effect, the Transfer Scheme must be approved by the Secretary of State or Ofwat. In addition, the Secretary of State and Ofwat may modify a Transfer Scheme before approving it or at any time afterwards with the consent of the Special Administrator and each new Regulated Company.

The WIA also grants the Secretary of State, with the approval of Her Majesty's 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 Annual 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 run its business if a Special Administration Order was made (ii) that the best price is received from disposals of

land. Where such proceeds were not taken into account when price limits were set, they are shared equally as between customers and shareholders. To this end there are certain procedures for and restrictions on the disposal of Protected Land and special rules apply to disposals by auction or formal tender and to disposals to certain associated companies. These include a restriction on the disposal (except with the consent of Ofwat) of Protected Land required for carrying out the Appointed Business. In addition, Ofwat can impose conditions on disposals of Protected Land including conditions relating to the manner in which the proceeds of a sale are to be used.

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

## ***Security***

### ***Restrictions on the granting of Security***

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, the WIA restricts a Regulated Company's ability to dispose of Protected Land (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:

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

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

### ***Restrictions on the enforcement of Security***

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

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

A disposal by the Special Administrator of any property secured by a fixed charge given by the Regulated Company could be made only under an order of the Court unless the creditor in respect of whom such security is granted otherwise agreed to such disposal. Such an order could be made if, following an application by the Special Administrator, the Court was satisfied that the disposal would be likely to promote one or more of the

purposes for which the order was made (although the Special Administrator is subject to the general duty to manage the company in a manner which protects the respective interests of the creditors and members of the Regulated Company). Upon such disposal, the proceeds to which that creditor would be entitled would be determined by reference to the “best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order” as opposed to an amount not less than “open market value” which would apply in a conventional administration for a non-Regulated Company under the Insolvency Act.

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

### ***Enforcement of Security over Shares in Regulated Companies***

Under the WIA, the enforcement of security over, and the subsequent sale of, directly or indirectly, the shares in a Regulated Company would not be subject to the restrictions described above in relation to the security over a Regulated Company’s business and assets. Notwithstanding this, given Ofwat’s general duties under the WIA to exercise and perform 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**

### ***Overview***

Economic regulation of the water industry in England and Wales has been based on a system of five-year single price caps imposed on the amounts which a Regulated Company can charge to its customers. This is being replaced with effect from 1 April 2015 with a system of four (three for water only companies) price controls covering wholesale water, wholesale wastewater, retail household and retail non-household. Thames Water has an additional fifth price control covering its sewerage services related to the TTT Project. The system retains its incentive based properties and each price control will operate for five years as with the previous regime, although aspects of the retail non-household control will be reviewed ahead of the proposed opening of the non-household retail market on 1 April 2017. The general features of each of the controls are described further below and TWUL specific information relating to the 2014 Final Determination is set out in Chapter 5A “*Description of the TWU Financing Group*”.

### ***Key features of the new price control framework***

A key feature of the new price control framework is the development of outcomes, commitments and ODIs which affect all price controls. These have been developed during the price review for each price control following extensive customer engagement and review by Ofwat. The outcomes apply at the Regulated Company level and describe the outcomes that customers wish to be delivered. The Thames Water outcomes are set out in Chapter 5A “*Description of the TWU Financing Group*”. For each outcome a series of appropriate commitments are established that set out the levels of performance that will be targeted in the current price control period. To incentivise delivery of these commitments, ODIs, either financial or reputational, are developed for each commitment. Where financial incentives apply, the unit rate of reward or penalty, and the bands in which the incentive applies, are also established. Companies will report on their performance against all incentives (financial and non-financial) on an annual basis. The main financial ODIs are described in Chapter 5A “*Description of the TWU Financing Group*” and the material risks for Thames Water arising from the ODIs are described in Chapter 1 “*Risk Factors*”.

In addition to the company specific ODIs Ofwat has retained the industry wide Service Incentive Mechanism in AMP6. However it has made a number of modifications to the AMP5 scheme. The main change is that the weighting of the qualitative score has been increased to 75% (from 50%) and the weighting of the quantitative score has consequently decreased to 25%.

### ***Wholesale price controls***

The three wholesale controls – water, wastewater and the TTT Project - share a number of common features which are described below.

***K factor:*** The wholesale controls are revenue caps with the amount of revenue that can be collected, in each control, limited to the previous year’s revenue cap increased by the sum of the percentage movement in the RPI plus K, a company and price control specific adjustment factor. The size of each K factor (which can be positive, negative or zero) reflects the scale of the specific business’ 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. It is an annual, variable factor and as such, may be a different number in different years. As these are new controls, from 1 April 2015, Ofwat has also had to establish the value of the 2014-15 revenue cap. Specific values for Thames Water for the price control commencing 1 April 2015 are set out in Chapter 5A “*Description of the TWU Financing Group*”.

***Regulatory Capital Value:*** Under the methodology developed by Ofwat, the regulatory capital value of Regulated Companies is a critical parameter underlying the wholesale price controls set at Periodic Reviews, being the value of the capital base of the relevant price control 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 take account of the assumed net RCV additions in each year of a Periodic Review Period, which are a function of the total expenditure over the period and the pay-as-you-go (“PAYG”) ratio. The PAYG ratio is established for each price control in the Final Determination and reflects the proportion of total expenditure that is remunerated in the current price control period with the remaining non-PAYG totex added to the RCV to be remunerated in future periods. The remuneration of the RCV occurs through the RCV run-off, where the RCV is reduced by the RCV run-off that is included within the revenue cap.

***Totex Menu:*** The totex menu is a mechanism that provides an incentive on Regulated Companies to reduce their wholesale costs and improve efficiency. Companies make a menu choice for each of their wholesale controls, following the Final Determination and using the menu published by Ofwat, that determines three factors – the level of allowed expenditure, the level of additional income and a totex sharing rate. These factors operate together to provide an incentive to maximise totex efficiency. The menu choice is essentially the ratio of



expected expenditure over the price control period to Ofwat's estimated baseline expenditure. Once this choice is made the published menu will determine the level of allowed expenditure as the 25:75 interpolation between the two, the level of additional income and the totex sharing rate (the proportion of any over or under spend of totex that is shared with customers). The Final Determination includes an implied menu choice and so the Menu Choice does not affect revenues during the following AMP. Instead adjustments are made, as appropriate, in the adjustments that flow into the next price control.

**Wholesale Revenue Forecasting Incentive Mechanism ("WRFIM"):** Ofwat have introduced a WRFIM, which replaces the previous revenue correction mechanism and provides an incentive to set tariffs so as to closely recover the allowed revenue whilst also providing a protection mechanism so that any over or under recovery of revenue can be carried forward to the next year.

#### ***Retail household price control***

The retail household control is materially different in structure to the wholesale controls. The retail household control does not have an RCV or K factor, and is not indexed to RPI. Instead the control is based on an overall average cost to serve limit, which is a weighted average of the average cost to serve for a number of customer types i.e. meter or unmetered and whether water, wastewater or both. The limit is set for each year of the control and is set in nominal terms.

#### ***Retail non-household price control***

The retail non-household control is different to both the wholesale control and the retail household control. It does not contain an RCV or K factor, and is not indexed to RPI. It also does not have an overall limit on average prices. Instead the control consists of limits on the average revenue allowed in each year for specific customer types. These limits are added to the wholesale charges to provide default tariffs, which are the maximum that can be charged for each customer type. While the total of allowed non-household retail costs, that are used to generate the average cost limit for each customer type, will remain as per the Final Determination, the allocation of these costs to customer types will be reviewed during 2016 and may result in a different limit for each customer type from 1 April 2017.

**Bulk Supply Charges:** A small number of typically 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. Charges for non-domestic supplies of water and the reception, treatment and disposal of trade effluent may also be included where these do not fit within the standard charges scheme. These charges usually determined on an individual basis. An annual true-up of the expenditure associated with bulk supply may be applied.

The Water Act 2014 introduced measures which are designed to encourage the entry into bulk supply agreements. New legislation allows Ofwat to order a supplier to enter into a bulk water supply agreement, under such terms and conditions as Ofwat specifies. Ofwat can only make an order if it is satisfied that the bulk supply is necessary for securing the efficient use of water resources and where it is satisfied that the parties are unable to come to an agreement themselves.

#### ***Interim Determination of a price control:***

Under certain circumstances both the regulated company and Ofwat have the opportunity to apply for an interim determination of K ("IDoK") between Periodic Reviews. An application for an interim determination can be made in respect of the following:

- Relevant Changes of Circumstance (i.e. a changes in legal requirement, disposals of land and failure to achieve a output specified in the most recent determination);

- Notified Items (as defined in Ofwat’s determination); and/or
- Other circumstances that have occurred which have a substantial favourable or adverse effects.

The terms of what items and costs are reasonably recoverable (including thresholds for triviality and materiality) are set out in detail in Condition B of the regulated company’s 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 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 CMA:** If Ofwat fails within specified periods to make a determination at a Periodic Review or in respect of an interim determination or if the Regulated Company disputes its determination, the Regulated Company can require Ofwat to refer the matter to the CMA for determination by it after making an investigation. The CMA 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 CMA are binding on Ofwat.

**Longer-term changes:** In addition to the new measures Ofwat introduced with effect from 1 April 2015, Ofwat also indicated in its latest Periodic Review methodology that additional changes would take effect during the AMP6 Period:

- (i) Ofwat intends to introduce a “financial structure monitoring regime” to assess industry financial resilience and the risks to customers posed by companies’ financial structures, and, ultimately, identify whether it would be appropriate to intervene in the interests of customers.
- (ii) Ofwat intends to apply an “Abstraction Incentive Mechanism (AIM)”, which is targeted at limiting the levels of abstraction at low flows from environmentally sensitive sites. The incentives will be reputational initially, though Ofwat will explore the possibility of financial incentives.
- (iii) “Network Plus”, which is intended to be introduced during the AMP6 Period, will allow Ofwat to set non-binding price controls for companies’ core network and treatment activities. Ofwat’s intention with Network Plus is to be able to differentiate its approach to regulation for different parts of the value chain. TWUL and all other water companies have a condition in their Licence, requiring them to work with Ofwat to develop these targeted price controls.

#### **PR14 Reconciliation Rulebook**

On 26 March 2015, Ofwat issued an announcement via the Regulatory News Service operated by the London Stock Exchange, and published a consultation on a reconciliation rulebook, which it intends to publish as part of the price review process which concluded in December 2014. The draft reconciliation rulebook sets out how Ofwat proposes to reconcile incentives which were set as part of the 2014 Final Determination, and reconcile company performance at the price review in 2019. The draft rulebook also sets out the reconciliation approach to those factors not reconciled from the 2009 price review.

The draft rulebook includes provisions as to how Ofwat will manage:

- ODIs, which provide companies with rewards for achieving stretching performance targets and compensate customers if performance is below performance targets;
- wholesale total expenditure (totex) sharing, where company over- and underperformance is shared with customers;

- wholesale revenue forecasting incentive mechanism, which provides financial incentives for companies to provide accurate forecasts, and ensures under- and over-recovery is reconciled;
- PR09 reconciliation (capital incentive scheme, blind year adjustments); and
- household retail, where the total revenue allowance is adjusted for actual customer numbers.

The consultation on the PR14 reconciliation rulebook closed on 7 May 2015 and Ofwat has not yet published the final reconciliation rulebook.

## **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 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, the UWWTD and the Industrial Emissions Directive, which 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 for the recycling of sewage sludge which arises from the treatment process. The infraction case regarding the London and Whitburn agglomerations found against the UK; whilst the extensions and improvements to TWUL's London sewage treatment works are complete and TWUL is considered 'compliant' as regards treatment, the UK will remain non-compliant regarding collecting systems until both the Whitburn sewerage scheme and the TTT Project are completed. Completion of the Lee Tunnel, expected at the end of 2015, would be a major milestone. The EU Commission is also taking a closer interest in less direct issues, such as the collection of the correct numbers of samples per year, and TWUL's procedures have been tightened accordingly. Permission for the TTT Project has been secured and procurement is underway (see Chapter 5, "*Description of the TWU Financing Group*").

### ***Long Term Issues of sewerage***

Allied to the UWWTD infraction case is the underlying interpretation of the intention of UWWTD; the judgment implies a more stringent approach to the expected performance of collecting systems (sewerage networks) than hitherto adopted in the UK. The UK water industry has agreed to work with regulators to develop a plan for "21st Century drainage" intended to address, among other issues, stakeholder concerns of CSO operation. It is not expected to report before 2017 and hence TWUL expects that any major investment will fall post-2020.

Another element of sewerage that has been exposed in the recent wet winters is water ingress leading to excessively high sewer flows, surcharging and flooding. This has been linked to 'infiltration reduction plans' (although not all flows are necessarily infiltration, and not solely to TWUL's sewers) and stakeholder involvement in 'drainage strategies' may also lead to considerable investment post-2020 if the argument is otherwise made that these networks are not UWWTD-compliant.

### ***Localism Act and the UWWTD***

The ECJ in its judgement of 18 October 2012 found the UK to be in breach of its obligations under the UWWTD partly in respect of overflows from the sewer network in London. This could result in fines being imposed on the Government, although it is assumed that demonstrating continuing and timely progress may avert this possibility.

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 and section 48 was enacted on 31 May 2012. “*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 infringement of EU law for which that financial sanction was imposed. To counter this threat TWUL would need to make continued progress with the TTT Project.

### ***Water Framework Directive***

The Water Framework Directive rationalises existing EU water legislation 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 and the second plan will be adopted in December 2015. The plans (River Basin Management Plans) include lists of measures that Regulated Companies and other parties will need to undertake to achieve the objectives of the Water Framework Directive.

The EA is responsible for monitoring and reporting on the objectives of the Water Framework Directive (WFD) on behalf of government. The EA will work with Ofwat, local government, non-governmental organisations (NGOs) and a wide range of other stakeholders including local businesses, water companies, industry and farmers in order to achieve the objectives under the Water Framework Directive.

Some measures specific to the Water Framework Directive have been agreed with the EA through the Periodic Review process for 2015-20, although the complete list of requirements will not be known until publication of the final River Basin Management Plans in 2016. To date the list of likely measures is substantially less than was originally anticipated, with a risk of an expanded list of requirements in subsequent periods. Overall it is expected to have a significant impact on Regulated Companies in the longer term. For example, it may result in increased limitations on abstraction licences and a restriction on discharge consents, particularly in terms of additional stringent consent limits for trace chemicals, such as pharmaceutical residues, that are not easily or adequately removed by current treatment processes. This could cause Regulated Companies to incur material expenditure. As there is a timetable mismatch between WFD and Periodic Review process there is a risk that further investment could be required within Periodic Review periods although TWUL would seek to postpone investment to the next period wherever possible. To comply with the Water Framework Directive, Member States should have ensured that 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. Current achievement (around 20% of water bodies) and a modest programme for 2015-20 implies, if not long-term non-compliance for the UK, then either a substantial relaxation of objectives or a massive investment programme starting 2020.

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’). It has been amended by 2013/39/EU to include additional parameters, and continues to represent a compliance (and hence investment) risk in that full compliance might only be achieved, by the installation of the equivalent of drinking water treatment at the sewage treatment works. However, the potentially excessive costs have not been justified to date by any recognised benefits and for the moment TWUL’s

obligations refer to delivery of a comprehensive sampling and demonstration programme, which will better describe the potential for non-compliance as well as inform the remediation costs.

### ***Industrial Emissions Directive and H4 Odour Guidance***

The IED came into force on 6 January 2011 and is being implemented through the Environmental Permitting Regulations regime in England and Wales. To date, Government has continued with its view, as stated in its consultation paper that it is minded not to include sludge treatment centres as an activity that requires IED permitting. If this approach were to change, then it is probable that all of TWUL's 37 sludge treatment centres would require a bespoke Environmental Permit, with attendant cost and additional requirements.

Even if sludge centres are not subject to IED, it is possible that they could fall under similar obligations if described as a waste activity. For instance, the H4 odour guidance, published in April 2011, implies potential new obligations for sites subject to the IED but applies to most activities that have an Environmental Permit. Although sewage treatment is excluded, sludge treatment may be viewed by the EA as a separate 'waste' activity and therefore captured under general waste legislation, again requiring a bespoke permit. The H4 guidance introduces, in any event more stringent odour requirements and management plans for existing sites that have Environmental Permits.

### ***Floods Directive***

In September 2007, Directive 2007/60/EC of the European Parliament and of the Council of 23 October 2007 on the assessment and management of flood risks ("EU Floods Directive") was adopted by the European Council. The aim of the EU Floods Directive is to reduce and manage the risks that floods pose to human health, the environment, cultural heritage and economic activity. The EU Floods Directive required Member States to first carry out a preliminary flood risk assessment by 2011 to identify areas at risk of flooding. For such areas they would then need to draw up flood risk maps by 2013 and establish flood risk management plans focused on prevention, protection and preparedness by 2015. The EU Floods Directive applies to inland waters as well as all coastal waters across the whole territory of the EU. The EU Floods Directive shall be carried out in coordination with the Water Framework Directive, notably by flood risk management plans and river basin management plans being coordinated, and through coordination of the public participation procedures in the preparation of these plans. All assessments, maps and plans prepared shall be made available to the public.

The EU Floods Directive was enacted into UK law through the Flood Risk Regulations 2009 ("2009 Flood Regulations") and the Flood and Water Management Act 2010 ("FWMA"). The key areas within the FWMA are the requirement for the Environment Agency to create a National Flood and Coastal Erosion Risk Management Strategy, which a number of organisations will have to follow; the requirement for leading local flood authorities to create local flood risk management strategies; the facilitation of the Environment Agency and local authorities to carry out flood risk management works; the introduction of a more risk-based approach to reservoir management; changes to the arrangements that would apply should a water company go into administration; an increased ability for water companies to control non-essential uses of water, such as the use of hosepipes; an ability for water companies to offer concessions to community groups for surface water drainage charges; the requirement to use sustainable drainage systems in certain new developments, and the introduction of a mandatory building standard for sewers.

## **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 (NAV) 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 (NAV) mechanism continues alongside the regime for licensing new entrants under the Water Act 2014;
- (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 2003 introduced a statutory framework for self-lay;
- (c) water supply licence (retail) – the Water Act 2003 introduced a statutory framework to allow a water supply licensee to purchase wholesale water from the existing water undertaker and to supply this water to an eligible premises (i.e. premises that currently uses more than 5 megalitres per annum);
- (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, including indicative access prices, 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.

In December 2011, following debates in Parliament, the Water Supply (Amendment to the Threshold Requirement) Regulations 2011 reduced the eligibility threshold for non-household consumers to choose their water supplier, from 50 mega litres per annum to 5 megalitres per annum. The Water Act 2014 allows the Secretary of State to repeal the 5 megalitre minimum threshold which applies to water supply licences for non-household supplies in England. The Government proposes to exercise its discretion to do so as part of new water and wastewater retail market arrangements enabled by the Water Act 2014. This would enable non-household customers to choose their preferred water supplier irrespective of their consumption level from 1 April 2017.

### ***Merger Regime***

The CMA has a duty to refer for a second phase investigation 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 merger operates, or may be expected to operate, against the public interest, the CMA 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 CMA 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 CMA takes the final decision on remedial action, and this decision can be appealed to the Competition Appeals Tribunal 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 CMA 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 CMA as well as Ofwat. The CMA has the power to investigate any merger within the jurisdiction of the United Kingdom. The CMA must refer a transaction for a second phase 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 CMA will consult with Ofwat.

The Secretary of State, in certain limited circumstances, may also refer a merger to the CMA for a second phase investigation into whether the arrangement could be expected to operate against the public interest. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU Merger Regime.

On 1 April 2014, the CMA took over the competition functions of the OFT (which previously carried out first phase reviews) and the Competition Commission (which carried out second phase investigations).

The Water Act 2014 introduces amendments to the current water special merger regime. In addition to the £10 million threshold discussed above, the CMA has an enhanced discretion not to refer water mergers to a second phase investigation and, in the event that it determines a water merger should be referred for a second phase investigation, may accept undertakings in lieu of a reference. Furthermore, the Water Act 2014 also imposes a new duty on the CMA to keep under review and advise the Secretary of State on both the £10 million threshold and the conditions under which the CMA must refer water mergers.

## **Regulatory Developments**

### ***Water Act 2014***

On 14 May 2014, the Water Act 2014 received Royal Assent and became an Act of Parliament. The Water Act 2014 aims to implement the legislative changes to strengthen the water sector’s ability to respond to the challenges of a growing population and less certain water supplies and also to offer consumers more choice by enabling them to switch water and sewage suppliers easily through the removal of existing regulatory barriers for new entrants to the market.

The Water Act 2014 is intended to modernise Ofwat’s regulatory powers to allow it to continue to regulate the industry in the interests of consumers and will extend the scope of the Environmental Permitting regime to include water abstraction and impounding licences and align the frequency of drought planning to a five year cycle so it aligns with other water planning cycles.

The Water Act 2014 includes market reform measures that are intended to increase competition in the water sector. In particular, it introduces a revised water supply licensing regime to open up retail and wholesale competition in relation to supply to all non-household customers in England. The Water Act 2014 further includes provisions for, among other things:

- (a) facilitating bulk supply agreements and mains connections agreements, revising and extending the rules relating to charges imposed by water undertakers;
- (b) modernising Ofwat’s regulatory powers to allow it to continue to regulate the industry in the interests of consumers and extending the scope of the Environmental Permitting regime to include water abstraction

and impounding licences and to align the frequency of drought planning to a five year cycle so it aligns with other water planning cycles;

- (c) expanding the water supply licensing regime to introduce sewerage licences and wholesale (non-retail) supply licences, and to facilitate the creation of a cross-border retail market between England & Wales and Scotland; varying some disincentives to water company mergers;
- (d) introducing changes to the general regulation of the water industry, e.g. providing for a new statutory “resilience objective” of Ofwat – “...to secure that water and sewerage undertakers take steps for the purpose of enabling them to meet, in the long term, the need for the supply of water and the provision of sewerage services to consumers, including by promoting appropriate long-term planning and investment by relevant undertakers...”;
- (e) enabling the Secretary of State to pass regulations setting out standards of performance for water companies and for the payment of compensation to customers where they fail to meet these standards;
- (f) allowing penalties to be imposed on water companies for licence breaches for five years after the breach (currently 12 months);
- (g) allowing Ofwat to amend water companies’ licence conditions to reflect the reforms in the Water Act 2014 (subject to consultation with affected water companies and the Secretary of State); and
- (h) reforming the special water merger regime by introducing exceptions to the obligation on the CMA to refer water mergers to a second phase investigation and enabling the CMA to accept undertakings in lieu of a reference.

Many of the measures prescribed in the Water Act 2014 have not yet been implemented and will apply from a date to be specified by the Secretary of State, such as the right of the Secretary of State to repeal the 5 megalitre minimum threshold in England such that non-household customers would be able to choose their supplier regardless of their consumption level.

### ***Open Water Programme***

The Water Act 2014 enables the creation of a new market for the retailing of water and sewerage services to all non-household customers in England. The “Open Water Programme” has been created to deliver the required market reforms to allow the non-household retail market to be opened on 1 April 2017. Further market reforms and the introduction of competition into upstream activities are under consideration by Ofwat and Defra for implementation beyond 2019.

The Open Water Programme has been established and governed by a ‘high level group’ comprising representatives from Defra, Ofwat, the Water Industry Commissioner for Scotland, water companies, new entrants and business customers.

Open Water Market Limited (“OWML”) was incorporated as a company limited by guarantee in early 2014 and Market Operator Services Limited (“MOSL”) in later 2014 to support the Open Water Programme.

In an Information Notice (IN 14/13) published by Ofwat on 6 August 2014 and a subsequent letter from Cathryn Ross (the CEO of Ofwat) to company CEOs on 17 February 2015, Ofwat confirmed a new approach to taking forward the work of the Open Water Programme with some elements of the programme of work undertaken by OWML moving into a ring-fenced programme to be taken forward by Ofwat from January 2015 and other elements, such as the procurement of central market systems, being taken forward by a new private entity Market Operator Services Ltd (“MOSL”).

On 14 July 2014, Ofwat published a statutory consultation proposing to insert a new temporary condition R1 into the licences of appointed water and sewerage (and water only) companies in England and Wales. The proposed



licence condition requires companies to fund the development of the aforementioned new market reforms in the period from August 2014 to approximately the end of 2016. Ofwat proposes to apportion funding contributions in accordance with the estimated market shares of each company. Condition R1 has been incorporated into TWUL's Instrument of Appointment and TWUL's share of the costs is 20 per cent.

MOSL commenced procurement of central market systems in early 2015 and the process is continuing.

### ***Changes to Price Control***

With effect from 22 July 2013, TWUL's Instrument of Appointment was amended to introduce a number of changes which will apply to price controls from 1 April 2015 (see "*Key features of the new price control framework*" above for further details). At the same time, Ofwat modified TWUL's Instrument of Appointment to require TWUL to use all reasonable endeavours to work with Ofwat to develop more targeted price controls in the future. Ofwat has indicated that it will need to make further changes to the licence in the future to allow it to evolve and appropriately target wholesale controls and incentives. A similar requirement is contained in the licences of all other Regulated Companies.

### ***Priority Substances Directive***

The Priority Substances Directive ("Environmental Quality Standards Directive", 2008/105/EC) sets environmental quality standards for the substances in surface waters (rivers, lakes, transitional and coastal). It 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 sewage treatment works 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 sewage treatment works. 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.

### ***Ofwat financial model and Financial Ratios***

As part of the Ofwat Final Methodology, Ofwat also announced certain changes to the principles adopted in its financial modelling for the AMP6 Period.

Two accounting measures, which will no longer be used by Ofwat and therefore will not be "published" numbers in the Final Determination, are: (i) the 'current cost depreciation' charge ("CCD") which applied to above-ground assets, such as treatment works; and (ii) the 'infrastructure renewals charge' ("IRC") which applied to infrastructure assets, such as underground pipes, owing to Ofwat's new "simplified depreciation approach" based on totex. Under Ofwat's new totex approach, these are replaced with the RCV run-off.

### ***Financial structuring monitoring regime***

Ofwat also announced in the Ofwat Final Methodology that it intends to introduce a financial structure monitoring regime to assess (i) the sector's financial resilience and (ii) the risks to customers posed by the companies' financial structures and to identify whether (and when) it might be appropriate for Ofwat to intervene to protect customers. Ofwat intends to consult further on the regime in the coming year.

## **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 Industry Act 1991, as amended by the Water Act 2003, introduced the independent consumer council for water consumers (known as the “CCWater”), whose role is to provide information of use to consumers and to promote the interests of all water consumers. The Gray Review evaluated the role of the CCWater and recommended “that current arrangements should be retained”.

### ***Service Incentive Mechanism***

As described above in Chapter 5A “*Description of the TWU Financing Group*”, Ofwat introduced a performance assessment called the Service Incentive Mechanism 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 calculated incentives in the 2014 Final Determination based on average performance over the years 2011/12, 2012/13 and 2013/14.

Ofwat also set out in the 2014 Final Determination that the SIM mechanism, with some minor adjustments, would again be used to incentivise companies during the AMP6 Period.

### ***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. It should be noted that the Thames guaranteed standards scheme is an enhancement of the obligatory statutory scheme in that it offers higher payments for some claims as well as some additional non-statutory guarantees.

The Water Act 2014 extends guaranteed service standards (minimum service standards and payments for service failures) for Household and Non-Household customers to all licensees operating in the retail market.

## **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.

Further, subject to the Entrenched Rights and Reserved Matters (see the section “Entrenched Rights and Reserved Matters” below), the Security Trustee shall, without any requirement to obtain the consent or sanction of any other Secured Creditor other than those listed in the proviso below, concur with any proposed modification, amendment, consent or waiver to an Authorised Credit Facility (other than any TWUF/TWUL Loan Agreement), provided that (i) each Contracting Secured Creditor under the relevant Authorised Credit Facility (or, to the extent that the relevant Authorised Credit Facility requires only a specified majority of the relevant Contracting Secured Creditors to consent to or sanction the proposed modification, amendment, consent or waiver, at least the specified majority of the relevant Contracting Secured Creditors under the relevant Authorised Credit Facility) has provided written consent to such modification, amendment, consent or waiver; and (ii) the requested modification, amendment, consent or waiver does not impose any additional obligations or liabilities on the Security Trustee.

TWUL made an additional amendment to clause 8.2.3 of the STID to authorise the Security Trustee to make such amendments as are necessary to the Finance Documents in order to implement the TTT Project, subject to such amendments maintaining the TTT Project Key Characteristics and respecting existing protections for Secured Creditors (including Entrenched Rights and the ratings level). A condition for making such amendments is that TWUL delivers a certificate to the Security Trustee signed by two Authorised Signatories of TWUL, setting out the terms of the proposed modification, amendment, consent or waiver and certifying that: (i) the amendment, modification, consent and/or waiver does not give rise to an Entrenched Right or Reserved Matter; (ii) either the then current ratings of the Bonds have been affirmed by all Rating Agencies then rating the Bonds or, in circumstances where a Rating Agency is not willing to issue a rating affirmation due to its then prevailing policy regarding the issue of rating affirmations, TWUL has made a public announcement of its proposed modification, amendment, consent and/or waiver and within 30 calendar days of such announcement, no Rating Agency has made any public comment that such a modification, amendment, consent and/or waiver would cause the then current ratings of the Bonds to be downgraded or the Bonds being placed on credit watch with negative implications; (iii) at the time of the implementation of such modification, amendment, consent and/or waiver, no Default is continuing or would result from such implementation; (iv) the modification, amendment, consent and/or waiver is necessary to implement the TTT Project (but only to the extent that the TTT Project is complying with the TTT Project Key Characteristics); and (v) the modification, amendment, consent and/or waiver is not reasonably likely to have a Material Adverse Effect. Implementation of the STID proposal is conditional on (a) the issue of the Project Specification Notice; and (b) the affirmation of the relevant ratings set out in the definition of Rating Requirement by all Rating Agencies then rating the Bonds.

### **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:

- (a) any proposal that is the subject of an Entrenched Right or Reserved Matter in favour of the Bondholders;  
or
- (b) any proposal following the occurrence of a Default Situation and for so long as a Default Situation is continuing,

a Secondary Market Guarantor will not form part of the Class A DIG and (i) the Class A DIG Representative in respect of all Class A Unwrapped Bonds (including Class A FG Covered Bonds) will be the Bond Trustee who will be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any such proposal; and (ii) the Class A DIG Representative in respect of the Secured TWUF Bonds (including Secured TWUF FG Covered Bonds) will be the relevant TWUF Bond Trustee who will be entitled to convene a meeting of any class of Secured TWUF Bonds to consider any such proposal.

Decisions of the Majority Creditors will be determined by votes on a “pound for pound” basis (based on the Outstanding Principal Amount of the Qualifying Class A Debt voted by the Class A DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class A DIG Representatives which have actually voted by the specified date for voting, which date must be not less than 10 Business Days (or in certain circumstances five Business Days) after the date the STID Directions Request is deemed to be given (or, where the Bond Trustee is a Class A DIG Representative and a Default Situation is continuing (subject to the Emergency Instruction Procedure — see the section “Emergency Instruction Procedure” below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class A DIG Representatives in respect of more than 50 per cent. of the Qualifying Class A Debt have voted in favour of the relevant proposal.

### **Class B Debt Instructing Group**

Following repayment in full of the Class A Debt, the Class B DIG Representatives voting in respect of the Outstanding Principal Amount of Qualifying Class B Debt that they represent will be eligible to exercise the rights of the Majority Creditors. After repayment in full of the Class A Debt, decisions of such Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters that are fundamental to particular Secured Creditors. See the section “Entrenched Rights and Reserved Matters” below.

The providers of Qualifying Class B Debt will exercise their rights through a group of representatives which will together be entitled to vote on certain proposals as part of the “Class B Debt Instructing Group” or the “Class B DIG”. The Class B DIG will be comprised of the following representatives (each, a “Class B DIG Representative”) of Qualifying Class B Debt:

- (a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), such Financial Guarantor;
- (b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Class B Wrapped Bonds) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; and
- (c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (b) above (excluding liabilities in respect of any Hedging Agreements or Liquidity Facilities) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum to the STID as the Class B DIG Representative.

Each Class B DIG Representative is required to provide an indemnity to the Security Trustee each time it votes as part of the Class B DIG irrespective of whether it is a Majority Creditor.

Secondary Market Guarantors will not participate in the Class B DIG.

Unless a Default Situation has occurred and no Emergency Instruction Notice has been served (see the section “Emergency Instruction Procedure” below) and is continuing, the Bond Trustee is not entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class B DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class.

Decisions of the Majority Creditors will be determined by votes on a pound for pound basis (based on the Outstanding Principal Amount of the Qualifying Class B Debt voted by the Class B DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class B DIG Representatives which have actually voted by the specified date for voting, which date must be not less than 10 Business Days (or in certain circumstances five Business Days) after the date the STID Directions Request is deemed to be given (or, where the Bond Trustee is a Class B DIG Representative and a Default Situation is continuing (subject to the Emergency Instruction Procedure — see the section “Emergency Instruction Procedure” below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class B DIG Representatives in respect of more than 50 per cent. of the Qualifying Class B Debt have voted in favour of the relevant proposal.

### **Voting by the Bond Trustee as DIG Representative of the Bondholders and the TWUF Bond Trustees as DIG Representatives of the Secured TWUF Bondholders**

Where the Bond Trustee acts as the DIG Representative of some or all of the Wrapped Bondholders (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of those Wrapped Bonds) and/ or the Unwrapped Bondholders, the Bond Trustee may, both prior to a Default Situation and/or whilst a Default Situation is continuing, in its absolute discretion, vote on a STID Proposal or a DIG Proposal (without reference to any Bondholders) in respect of the aggregate Outstanding Principal Amount of some or all of such Sub-Classes of Bonds (excluding, prior to a Default Situation, any Class A FG Covered Bonds), but shall not, prior to a Default Situation, be entitled to convene a meeting of any Series, Class or Sub-Class of Bondholders to seek directions (except in respect of an Entrenched Right or Reserved Matter of such Series, Class or Sub-Class of Bondholders).

Additionally whilst a Default Situation is continuing, where the Bond Trustee acts as the DIG Representative in respect of Bonds, the Bond Trustee shall not be entitled to convene a meeting of the Bondholders to direct the Security Trustee by way of an Extraordinary Resolution of the relevant Sub-Class of Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See the section “Emergency Instruction Procedure” below.

Similarly, where the relevant TWUF Bond Trustee acts as the DIG Representative of some or all of the Secured TWUF Bondholders, the relevant TWUF Bond Trustee may, both prior to a Default Situation and/or whilst a Default Situation is continuing, in its absolute discretion, vote on a STID Proposal or a DIG Proposal (without reference to any Secured TWUF Bondholders) in respect of the aggregate Outstanding Principal Amount of some or all of such Secured TWUF Bonds (excluding, prior to a Default Situation, any Secured TWUF FG Covered Bonds), but shall not, prior to a Default Situation, be entitled to convene a meeting of any class of Secured TWUF Bondholders to seek directions (except in respect of an Entrenched Right or Reserved Matter of such Secured TWUF Bondholders).

Additionally whilst a Default Situation is continuing, where the relevant TWUF Bond Trustee acts as the DIG Representative in respect of Secured TWUF Bonds, the relevant TWUF Bond Trustee shall not be entitled to convene a meeting of the Secured TWUF Bondholders to direct the Security Trustee in accordance with an Extraordinary Resolution of the relevant class of Secured TWUF Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See the section “Emergency Instruction Procedure” below.

### **Emergency Instruction Procedure**

During a Default Situation, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee or the relevant TWUF Bond Trustee to convene Bondholder or Secured TWUF Bondholder meetings. To cater for such circumstances, the Intercreditor Arrangements provide for an Emergency Instruction Procedure (the “Emergency Instruction Procedure”) which is subject to Entrenched Rights and Reserved Matters. The Security Trustee will be required to act upon instructions contained in an emergency instruction notice (an “Emergency Instruction Notice”). An Emergency Instruction Notice must be signed by DIG Representatives (provided that, any Secondary Market Guarantor in respect of Class A FG Covered Bonds or Secured TWUF FG Covered Bonds shall constitute the DIG Representative for the Emergency Instruction Procedure despite a Default Situation subsisting) (the “EIN Signatories”) representing 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);
- (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;
- (n) would relate to the TTT Project related General Covenants set out in the CTA; or
- (o) would relate to the definitions of TTT Core Project Documents, TTT Project and TTT Project Key Characteristics.

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 Drawdown Prospectus 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.
- (d) Following a STID Proposal dated 22 April 2014 relating to the TTT Project and the proposed delivery model, in the interests of providing Secured Creditors with information with respect to the TTT Project, TWUL has undertaken, among other things:
  - (i) to include in each Investor Report an update on the progress of the TTT Project;
  - (ii) to supply to the Security Trustee information, which would be reasonably likely to be materially adverse to TWUL's creditworthiness or its ability to perform duties under the Instrument of Appointment;
  - (iii) to notify the Security Trustee of any proceedings in respect of any of the TTT Core Project Documents which are current, threatening, pending and had not been previously considered;
  - (iv) to notify the Security Trustee if the Project Specification Notice is revoked, the IP is placed in Special Administration, the IP Designation Notice is revoked or a discontinuation notice has been issued in respect of the TTT Project;
  - (v) to notify the Security Trustee if its aggregate loss or liability exceeds 0.25 per cent. of RCV in any 12 month period in relation to the TTT Project; and
  - (vi) to notify the Security Trustee of any claims under any Insurance, supplemental compensation agreement or similar agreement with the Government, and/or any indemnity or similar arrangement with the IP.

### **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.

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).

- (c) 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 interim determination 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.
- (d) 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;
- 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, and the Conformed 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 2:1 and 0.82:1 (respectively) or, following the occurrence of the Permitted Unsecured Financial Indebtedness Trigger, 2:1 and 0.85:1 (respectively) in each case, 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.

(e) 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;

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);
- (C) 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;

- (D) to use all reasonable endeavours to procure and maintain the admission of all listed Bonds for trading on the London Stock Exchange;
  - (E) 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;
  - (F) to give notice of certain events to the Bond Trustee and Bondholders in relation to the Bonds and payments in respect of the Bonds;
  - (G) 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
  - (H) to give notice of certain events in relation to the Bonds to the Rating Agencies.
- (f) Additionally, with respect to the TTT Project, TWUL has undertaken:
- (i) not to enter into, amend, modify or waive, or consent to the entry into, modification, amendment or waiver of a TTT Core Project Document if such entry into, modification, amendment or waiver could reasonably be expected to have a Material Adverse Effect without the consent of the Security Trustee acting on the instructions of the Majority Creditors; and
  - (ii) to conduct all transactions with the IP and its Affiliates on arm's length terms and subject to Condition K (3) (the financial ring-fencing provisions) of the Instrument of Appointment.

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;
    - (G) the Class A RAR for each Test Period;

- (H) the Conformed Class A ICR for each Test Period;
- (I) the Conformed Class A Adjusted ICR for each Test Period;
- (J) the Conformed Senior Adjusted ICR for each Test Period;
- (K) the Conformed Class A Average Adjusted ICR for each Test Period;
- (L) the Conformed Senior Average Adjusted ICR for each Test Period;
- (M) the Conformed Senior RAR for each Test Period;
- (N) the Additional Conformed Class A Adjusted ICR for each Test Period;
- (O) the Additional Conformed Senior Adjusted ICR for each Test Period;
- (P) the Additional Conformed Class A Average Adjusted ICR for each Test Period; and
- (Q) the Additional Conformed Senior Average Adjusted ICR for each Test Period; and

at each Periodic Review and on making each interim determination 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 2:1; and (ii) from and including the Ratio Step Date is estimated to be more than 2:1;
  - (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 0.1:1;
  - (iv) the Class A Adjusted ICR for any Test Period is or is estimated to be less than 0.1:1;
  - (v) the Senior Average Adjusted ICR for any Test Period is or is estimated to be less than 0.1:1;
  - (vi) the Class A Average Adjusted ICR for any Test Period is estimated to be less than 0.1:1;

- (vii) the Conformed Senior RAR for any Test Period is estimated to be more than 0.90:1;
- (viii) the Conformed Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1;
- (ix) the Conformed Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1;
- (x) the Conformed Class A Average Adjusted ICR for any Test Period is estimated to be less than 1.4:1;
- (xi) the Conformed Senior Average Adjusted ICR for any Test Period is or is estimated to be less than 1.2:1;
- (xii) the Additional Conformed Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1;
- (xiii) the Additional Conformed Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1;
- (xiv) the Additional Conformed Class A Average Adjusted ICR for any Test Period is estimated to be less than 1.4:1; or
- (xv) the Additional Conformed Senior Average Adjusted ICR for any Test Period is or is estimated to be less than 1.2:1.

(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 Substantial Effects Clause*

A referral is made under Paragraph 14.2 of Condition B of the Instrument of Appointment (or any successor or equivalent paragraph) as a result of any materially adverse event.

(k) *Audit Qualification*

The Auditors qualify their report of any member of the TWU Financing Group in a material manner which causes the financial ratios calculated in accordance with the CTA to not reflect the true position of TWUL in a materially adverse manner.

(l) *Adverse Governmental Legislation*

The commencement of the final reading of new legislation impacting upon Relevant Undertakers (as that term is defined in the WIA) if such legislation would (if enacted) lead to a breach of the financial ratios set out above or cause a material deviation in projections as set out above (in each case, taking into account any actions available to TWUL to mitigate or cure the same).

(m) *Modification or Replacement of Instrument of Appointment*

If within six months of an announcement setting out clear proposals (including a related timetable to effect such proposals) by Ofwat for the modification or replacement of the Instrument of Appointment which, if implemented, would have a Material Adverse Effect, TWUL has not obtained confirmation from Ofwat that the proposed modification or replacement is not expected to be implemented or is expected to be implemented in a form which is not reasonably expected to have a Material Adverse Effect.

(n) *Conduct of Business*

The Permitted Non-Appointed Business Limits are breached.

(o) *Adverse Final Determination of K*

A final determination of K by Ofwat which is reasonably likely to have a Material Adverse Effect (taking into account any remedies available to TWUL).

(p) *RPI Linked Hedging Agreements*

On any Calculation Date, the aggregate amount of all accretions by indexation to the original notional amounts of any RPI Linked Hedging Agreements exceeds eight 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 0.1:1;

- (p) the Senior RAR being more than (i) prior to the Ratio Step Date, 2:1; or (ii) from and including the Ratio Step Date, 2:1);
- (q) the Class A Adjusted ICR being less than 0.1:1;
- (r) the Conformed Class A ICR being less than 1.60:1;
- (s) the Conformed Senior RAR being more than 0.95:1;
- (t) the Conformed Class A Adjusted ICR being less than 1:1; or
- (u) the Additional Conformed 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 TWUF'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:

- (a) TWH:
  - (i) guarantees to the Security Trustee (for itself and for and on behalf of the Secured Creditors) punctual performance and observance by each other Obligor of all the present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each other Obligor to any Secured Creditor under each Finance Document;

- (ii) undertakes with the Security Trustee (for itself and for and on behalf of the Secured Creditors) that, whenever any other Obligor does not pay any amount when due under or pursuant to any Finance Document, that Obligor must immediately on demand by the Security Trustee pay that amount as if it were the principal obligor; and
  - (iii) indemnifies the Security Trustee (for itself and for and on behalf of the Secured Creditors) immediately on demand against any loss or liability suffered by the Security Trustee or any Secured Creditor if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal or ineffective; the amount of the loss or liability under this indemnity is equal to the amount the Security Trustee or that Secured Creditor would otherwise have been entitled to recover; and
- (b) each of TWUL, TWUF, TWUCFH and the Issuer:
- (i) guarantees to the Security Trustee (for itself and for and on behalf of the Secured Creditors) punctual performance and observance by each other of all the present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each other under each Finance Document;
  - (ii) undertakes with the Security Trustee (for itself and for and on behalf of the Secured Creditors) that, whenever one of them does not pay any amount when due under or pursuant to any Finance Document, it must immediately on demand by the Security Trustee pay that amount as if it were the principal obligor; and
  - (iii) indemnifies the Security Trustee (for itself and for and on behalf of the Secured Creditors) immediately on demand against any loss or liability suffered by the Security Trustee or any Secured Creditor if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal or ineffective; the amount of the loss or liability under this indemnity is equal to the amount the Security Trustee or that Secured Creditor would otherwise have been entitled to recover.

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;
- (x) an assignment of each Obligor's right in respect of all Transaction Documents; and
- (xi) 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 1 "*Risk Factors — Certain Legal Considerations — Security*" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales — Restrictions on the granting of security*".

Prior to an Event of Default, notices of assignment will only be given to the relevant counterparty to the Transaction Documents that are assigned and to the insurers with whom TWUL has taken out insurance in accordance with the requirements of the CTA (subject to certain agreed exceptions). Following an Event of Default, notices of assignment will be given in respect of any assigned contract or asset as requested by the Security Trustee upon the instructions of the Majority Creditors.

Any Permitted Subsidiary acquired or established by TWUL following the Initial Issue Date is required to accede to the Security Agreement as an Obligor. Accordingly, TWUCFH acceded to the Security Agreement as an Obligor on 15 October 2007.

## Security Structure

The following shows the security provided by the TWU Financing Group in favour of the Security Trustee on behalf of the Secured Creditors:

SECURITY		GUARANTEE
Fixed and floating charge (principal secured asset is its holding of shares in TWUL)	TWH	Guarantees all obligations of TWUL, TWUF, TWUCFH and the Issuer under the Finance Documents
Fixed and floating charge over its property, assets and undertaking, all subject to the WIA and the Instrument of Appointment	TWUL	Guarantees all obligations of TWUF, TWUCFH and the Issuer under the Finance Documents
Fixed and floating charge	TWUF	Guarantees all obligations of TWUL, TWUCFH and the Issuer under the Finance Documents
Fixed and floating charge	TWUCFH	Guarantees all obligations of TWUL, TWUF and the Issuer under the Finance Documents
Fixed and floating charge	ISSUER	Guarantees all obligations of TWUL, TWUCFH and TWUF under the Finance Documents

## **Financial Guarantor Documents**

### **The Financial Guarantees of Wrapped Bonds**

The form of Financial Guarantee to be issued by each Financial Guarantor (upon fulfilment or waiver by the Relevant Financial Guarantors of certain conditions precedent to be contained in the CP Agreement) in respect of the issue of Wrapped Bonds to be issued under the Programme will be set out in a supplement to this Prospectus.

Upon an early redemption of the relevant Wrapped Bonds or an acceleration of the relevant Wrapped Bonds, each Relevant Financial Guarantor's obligations will continue to be to pay the Guaranteed Amounts as they fall Due for Payment (each as defined in the Relevant Financial Guarantor's Financial Guarantee) on each Payment Date. None of the Financial Guarantors will be obliged under any circumstances to accelerate payment under its Financial Guarantees. However, if it does so, it may do so in its absolute discretion in whole or in part, and the amount payable by the Relevant Financial Guarantor will be the Outstanding Principal Amount (or pro rata amount that has become due and payable) of the relevant Wrapped Bonds together with accrued interest (excluding always the FG Excepted Amounts). Any amounts due in excess of such Outstanding Principal Amount (and any accrued interest thereon) will not be guaranteed by any Financial Guarantor under any of the Financial Guarantees.

The Bond Trustee as party to each of the Financial Guarantees will have the right to enforce the terms of such Financial Guarantees, and any right of any other person to do so is expressly excluded.

### **Guarantee and Reimbursement Deeds**

On each relevant Issue Date, the Issuer, TWUF and TWUL will enter into a guarantee and reimbursement deed (each a "G&R Deed") with the relevant Financial Guarantor, pursuant to which the Issuer will be obliged, among other things, to reimburse such Financial Guarantor in respect of the payments made by it under the relevant Financial Guarantee and to pay, among other things, any financial guarantee fee and fees and expenses of such Financial Guarantor in respect of the provision of the relevant Financial Guarantee. Insofar as a Financial Guarantor makes payment under the relevant Financial Guarantee in respect of Guaranteed Amounts (as defined in such Financial Guarantee), it will be subrogated to the present and future rights of the relevant Wrapped Bondholders against the Issuer in respect of any payments made.

## **Additional Resources Available**

### **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 2013.

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. The O&M Reserve Facilities were renewed in August 2013.

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 five 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 Obligor 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 Obligor's 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 in accordance with the provisions of the relevant Final Terms or completion in accordance with the provisions of the relevant Drawdown Prospectus (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 or Drawdown Prospectus 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 Drawdown Prospectus) a supplement to this Prospectus will be produced providing such information about such Financial Guarantor as may be required by the rules of the Irish 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”) 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”) or a drawdown prospectus (a “Drawdown Prospectus”). In the event of any inconsistency between these Conditions and the relevant Final Terms or Drawdown Prospectus, the relevant Final Terms or Drawdown Prospectus (as applicable) shall prevail.

The Final Terms or Drawdown Prospectus for the Bonds (or the relevant provisions thereof) supplements these Conditions and a Drawdown Prospectus 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” or “Drawdown Prospectus” is to the Final Terms or, as the case may be, Drawdown Prospectus (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 Drawdown Prospectus in excess of the initial Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(m) (*Definitions*)), and, in the case of Floating Rate Bonds, representing step-up fees at a rate specified in the relevant Drawdown Prospectus in excess of the initial Margin on the Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(m) (*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) or Drawdown Prospectus, 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 Drawdown Prospectus 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).

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 or Drawdown Prospectus 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 or Drawdown Prospectus.

## **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 or Drawdown Prospectus and, serially numbered in the Specified Denomination(s) provided that in the case of any Bonds 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 Drawdown Prospectus 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 or Drawdown Prospectus, 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 or Drawdown Prospectus). 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 (which may only be issued by way of Drawdown Prospectus).

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 (which may only be issued by way of Drawdown Prospectus).

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 or Drawdown Prospectus specifies the Bonds as Fixed Rate Bonds or Indexed Bonds.

Each Fixed Rate Bond and Indexed Bond bears interest on its Principal Amount Outstanding 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 and divided by the Calculation Amount and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(e) (*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(e) (*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 or Drawdown Prospectus, 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(e) (*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 or Drawdown Prospectus specifies the Bonds as Floating Rate Bonds.

(i) *Interest Payment Dates*

Each Floating Rate Bond bears interest on its Principal Amount Outstanding 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 Drawdown Prospectus; or
- (B) if no Specified Interest Payment Date(s) is/are expressly specified in the applicable Final Terms or Drawdown Prospectus, 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 or Drawdown Prospectus 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 and divided by the Calculation Amount and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(e) (*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 herein and the provisions below relating to either Screen Rate Determination or ISDA Determination, depending upon which is specified in the applicable Final Terms or Drawdown Prospectus.

- (A) If “Screen Rate Determination” is specified in the relevant Final Terms or Drawdown Prospectus 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(m) (*Definitions*)), being either EURIBOR or LIBOR, as specified in the applicable Final Terms or Drawdown Prospectus;
  - (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(m) (*Definitions*)) which appear on the Page as of the Relevant Time (as defined in Condition 6(m) (*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(m) (*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(m) (*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(m) (*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(m) (*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 or Drawdown Prospectus 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 or Drawdown Prospectus;
  - (2) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(m) (*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 or Drawdown Prospectus.

(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(m)(*Definitions*)) and rounding the resultant figure to the nearest unit of the Relevant Currency (rounded in accordance with Condition 6(e) (*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) *Minimum Interest Rate and/or Maximum Interest Rate*

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Final Terms or Drawdown Prospectus, 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.

(e) *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.

(f) *Business Day Convention*

If any date referred to in these Conditions or the relevant Final Terms or Drawdown Prospectus 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(m) (*Definitions*)), then if the Business Day Convention specified in the relevant Final Terms or Drawdown Prospectus 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.

(g) *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 Irish 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 Irish 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.

(h) *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(m) (*Definitions*)).

(i) *Deferral of interest on Class B Bonds*

This Condition 6(i) 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.

(j) *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.

(k) *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 or Drawdown Prospectus) 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).

(l) *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, Receipholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, TWUL, TWUF, TWH, TWUCFH, the Bond Trustee, the Bondholders, the Receipholders 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.

(m) *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 or Drawdown Prospectus;

“Business Day” means:

- (i) 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 or Drawdown Prospectus; and
- (ii) 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 or Drawdown Prospectus;

“Calculation Amount” has the meaning specified in the relevant Final Terms or Drawdown Prospectus;

“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:

$$\text{Day Count Fraction} = \frac{[360 \cdot (Y_2 - Y_1)] + [30 \cdot (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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:

$$\text{Day Count Fraction} = \frac{[360 \cdot (Y_2 - Y_1)] + [30 \cdot (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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:

$$\text{Day Count Fraction} = \frac{[360 \cdot (Y_2 - Y_1)] + [30 \cdot (M_2 - M_1)] + (D_2 - D_1)}{360}$$

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;

“EURIBOR” means the rate for Euro deposits for such period as specified in the relevant Final Terms or Drawdown Prospectus and for each Interest Period thereafter, for Euro deposits for the relevant Interest Period as determined by reference to (1) the display page designated EURIBOR01 on the Dow Jones Reuters Service (or such other page as may replace that page on that service, or such other service as may be nominated by the Agent Bank as the information vendor, for the purpose of displaying comparable rates) as of the Interest Determination Date or (2) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Agent Bank) as may replace the Dow Jones Reuters Monitor as at or about 11.00 a.m. (Brussels time);



“euro” means the lawful currency of the Participating Member States;

“Fixed Coupon Amount” means the amount specified as such in the relevant Final Terms or Drawdown Prospectus;

“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 or Drawdown Prospectus;

“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 Drawdown Prospectus 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 or Drawdown Prospectus);

“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 or Drawdown Prospectus;

“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 or Drawdown Prospectus, 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 or Drawdown Prospectus) as published by the International Swaps and Derivatives Association, Inc.);

“Issue Date” means the date specified as such in the relevant Final Terms or Drawdown Prospectus;

“LIBOR” means the rate for Sterling or U.S. dollar (as applicable) deposits for such period as specified in the relevant Final Terms or Drawdown Prospectus and for each Interest Period thereafter, for Sterling or U.S. dollar (as applicable) deposits for the relevant Interest Period as determined by reference to ICE Benchmark Administration Limited (or any other person who takes over the administration of this rate) LIBOR Rates display as quoted on the Bridge Reuters monitor as Reuters Screen LIBOR01 at 11.00 a.m. London time. If the Reuters Screen LIBOR01 stops providing these quotations, the replacement service for the purposes of displaying this information will be used. If the replacement service stops displaying the information, any page showing this information may be used. If there is more than one

service displaying the information, the one approved in writing by the Agent Bank in its sole discretion will be used;

“Margin” means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms or Drawdown Prospectus;

“Maturity Date” means the date specified in the relevant Final Terms or Drawdown Prospectus 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 or Drawdown Prospectus;

“Minimum Interest Rate” means the rate specified as such in the relevant Final Terms or Drawdown Prospectus;

“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 or Drawdown Prospectus 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 or Drawdown Prospectus;

“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 Drawdown Prospectus 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 or Drawdown Prospectus);

“Relevant Screen Page” means EURIBOR, LIBOR or such page, section, caption, column or other part of a particular information service as may be specified (or any successor or replacement page, section, caption, column or other part of a particular information service);

“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 Drawdown Prospectus 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 or Drawdown Prospectus 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 or Drawdown Prospectus;

“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 Drawdown Prospectus 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 or Drawdown Prospectus.

“Specified Period” means the period(s) specified as such in the relevant Final Terms or Drawdown Prospectus;

“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 or Drawdown Prospectus 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 or Drawdown Prospectus;

“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 Office for National Statistics (January 1987 = 100) and appearing on its website (<http://www.statistics.gov.uk/>) 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 (<http://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 or Drawdown Prospectus, be calculated in accordance with the following formula:

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

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

“IFA” means the Index Figure applicable;

“RPI<sub>m-3</sub>” 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<sub>m-2</sub>” 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 or Drawdown Prospectus, be calculated in accordance with the following formula:

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

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

“IFA” means the Index Figure applicable;

“RPI<sub>m-8</sub>” 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<sub>m-7</sub>” 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 or Drawdown Prospectus, it shall be deemed to be equal to such Minimum Indexation Factor;

“Limited Indexation Month” means any month specified in the relevant Final Terms or Drawdown Prospectus 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 or Drawdown Prospectus) applies;

“Maximum Indexation Factor” means the indexation factor specified as such in the relevant Final Terms or Drawdown Prospectus;

“Minimum Indexation Factor” means the indexation factor specified as such in the relevant Final Terms or Drawdown Prospectus; and

“Reference Gilt” means the Treasury Stock specified as such in the relevant Final Terms or Drawdown Prospectus 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(e) (*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 or Drawdown Prospectus 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 or Drawdown Prospectus 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, if a Call Option is specified as applicable in the relevant Final Terms or Drawdown Prospectus, 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 or Drawdown Prospectus, as follows:

- (i) In respect of Fixed Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, 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 Government stock (or such other stock as specified in the relevant Final Terms

or Drawdown Prospectus 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 or Drawdown Prospectus.

- (ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Final Terms or Drawdown Prospectus) 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 or Drawdown Prospectus) 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 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 or Drawdown Prospectus.

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 or Drawdown Prospectus) and Instalment Amounts (as specified in the relevant Final Terms or Drawdown Prospectus) 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.

## **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*

Payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Issuer, the Guarantors, or their respective Agents agree to be subject and neither the Issuer nor the Guarantors will be liable to Bondholders or Couponholders for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commission or expenses shall be charged to the Bondholders or Couponholders 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 or Drawdown Prospectus 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 or Drawdown Prospectus) (in the case of Floating Rate Bonds or Indexed Bonds); (iv) a Paying Agent with a specified office in a EU 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 or Drawdown Prospectus, 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 or Drawdown Prospectus, 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 or Drawdown Prospectus.

(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 or Drawdown Prospectus 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 Irish Stock Exchange), if the relevant Bonds have been admitted to listing, trading and/or quotation on such a stock exchange), 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. The Bond Trustee shall, at the request of the Issuer, without the consent or sanction of the Bondholders of any Sub-Class, agree to such amendments to the Bond Trust Deed or these Conditions as may be required by the Issuer to transfer the listing of any Sub-Class of Bonds between the Irish Stock Exchange and the London Stock Exchange, provided that (i) the Bond Trustee has received a certificate signed by two directors of the Issuer certifying that (a) such amendments do not constitute Basic Terms Modifications and (b) such amendments are required to effect such transfer and are only intended to give effect to such transfer (upon which certificate the Bond Trustee shall be entitled to rely without further enquiry) and (ii) such amendments do not require the Bond Trustee to undertake any more onerous duties or responsibilities or impose on the Bond Trustee any additional liabilities beyond those set out in the Bond Trust Deed. 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 Irish Stock Exchange, 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 or Drawdown Prospectus 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 EU, 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 and the Irish Stock Exchange, 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 or Drawdown Prospectus. 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 or Drawdown Prospectus will also specify whether United States Treasury Regulation §1.163-(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for the purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “Code)) (the “TEFRA C Rules”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the “TEFRA D Rules”) are applicable in relation to the Bonds.

### **Temporary Global Bond exchangeable for Permanent Global Bond**

If the relevant Final Terms or Drawdown Prospectus 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”):

- if the relevant Final Terms or Drawdown Prospectus 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 or Drawdown Prospectus), 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 or Drawdown Prospectus 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 or Drawdown Prospectus 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 or Drawdown Prospectus), 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 or Drawdown Prospectus 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:

- (a) if the relevant Final Terms or Drawdown Prospectus 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

- (b) 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 or Drawdown Prospectus), 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 Bearer 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 or Drawdown Prospectus 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**

Bearer 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 depositary for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

## **Payments**

All payments in respect of Bonds represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means Monday to Friday inclusive except 25 December and 1 January.

## **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 Drawdown Prospectus; 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:

*(a) 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.

*(b) 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.

*(c) 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

Final Terms dated [●]

### THAMES WATER UTILITIES CAYMAN FINANCE LIMITED

Issue of [Sub-Class [[●]] [Aggregate Nominal Amount of Sub-Class]

[Title of Bonds]

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 base prospectus dated [●] [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”). This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such base 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 base prospectus [as so supplemented]. [The base prospectus [and the supplemental prospectus] [is] [are] available on the website of the Central Bank of Ireland at: <http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx> and the website of the Irish Stock Exchange at <http://www.ise.ie/>.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the base prospectus dated [original date] [and the supplemental prospectus dated [●]] and incorporated by reference into the base 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 must be read in conjunction with the base prospectus dated [●] [and the supplemental prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the base prospectus dated [original date] [and the supplemental prospectus dated [●]]. 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 base prospectus dated [●] 2015 [and the supplemental prospectuses dated [●] and [●]]. [The base prospectuses [and the supplemental prospectuses] are available on the website of the Central Bank of Ireland at: <http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx> and the website of the Irish Stock Exchange at <http://www.ise.ie/>.]

[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.]

- |   |                  |   |
|---|------------------|---|
| 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

2	(i) Series Number:	[●]
	(ii) Sub-Class Number:	[●]
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 [●]]
	(ii) Net proceeds:	[●]
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:	[●]
9	Instalment Date:	[Not Applicable/[●]]
10	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/-[●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest]
11	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Instalment] [Dual Currency]
12	Call Options:	Issuer Call Option [●]
13	(i) Status:	Class [A / B] [Wrapped / Unwrapped] Bonds
	(ii) [Date [Board] approval for	[●] [and [●], respectively]]

issuance of Bonds [and  
Guarantee] obtained:

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Bond Provisions:	[Applicable/Not Applicable]
	(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 [●] not adjusted]
	(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)]
	(vi) Determination Date:	[●] in each year
	(vii) Reference Gilt:	[●]
15	Floating Rate Bond Provisions:	[Applicable/Not Applicable]
	(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]
	(iv) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(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:	[Applicable/Not Applicable]
	– Specified Duration:	[●]
	– Relevant Time:	[●]
	– Relevant Rate:	[EURIBOR / LIBOR ]
	– Interest Determination	[●]

	Date(s):	
	– Relevant Screen Page:	[EURIBOR / LIBOR]
	(vii) ISDA Determination:	[Applicable/Not Applicable]
	– 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:	[[●] per cent. per annum]/[Not Applicable]
	(x) Maximum Interest Rate:	[[●] per cent. per annum]/[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)]
	(xii) Additional Business Centre(s):	[●]
	(xiii) Relevant Financial Centre:	[●]
	(xiv) Representative Amount:	[●]
16	Zero Coupon Bond Provisions:	[Applicable/Not Applicable]
	(i) Accrual Yield: [●] per cent. per annum	[●] per cent. per annum
	(ii) Reference Price: [●]	[●]
	(iii) Day Count Fraction in relation to Redemption Amounts and late payment:	[Condition 8(e)] [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)]
17	Indexed Bond Provisions:	[Applicable/Not Applicable]
	(i) Index/Formula:	[RPI/HICP]
	(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)
	(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]
	(viii) Business Centres:	[●]
	(ix) Minimum Indexation Factor:	[Not Applicable/[●]]
	(x) Maximum Indexation Factor:	[Not Applicable/[●]]
	(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)]
18	Dual Currency Bond Provisions:	[Applicable/Not Applicable]
	(i) Determination Date(s):	[●]
<b>PROVISIONS RELATING TO REDEMPTION</b>		
19	Call Option:	[Applicable in accordance with Condition 8(b)/Not Applicable]
	(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):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[Not Applicable]
	(b) Maximum Redemption Amount:	[Not Applicable]
	(iv) Notice period:	[Not Applicable]
20	Final Redemption Amount:	[●] per Calculation Amount



## GENERAL PROVISIONS APPLICABLE TO THE BONDS

21	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 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 in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]
	(ii) If Registered Bonds:	[Global Bond Certificate exchangeable for Individual Bond Certificates]
22	Relevant Financial Centre(s):	[Not Applicable/[●]]
23	Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature):	[Yes/No.]
24	Details relating to Instalment Bonds:	[Not Applicable/Applicable]
	(i) Instalment Date:	[●]
	(ii) Instalment Amount:	[●]
25	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions in Condition 19 apply]
26	TEFRA rules:	[TEFRA C/TEFRA D/Not Applicable]

## ISSUER/TWUL LOAN TERMS

27	Amount of relevant Term Advance/Index Linked Advances:	[●]
28	Interest rate on relevant Term Advance/Index Linked Advances:	[●]
29	Term of relevant Term Advance/Index Linked Advances:	[●]

## DISTRIBUTION

	<b>Method of distribution</b>	<b>[Syndicated/Non-syndicated]</b>
30	(i) If syndicated, names of Managers:	[Not Applicable/[●]]
	(ii) Stabilising Manager (if any):	[Not Applicable/[●]]

- |    |                                    |  |
|----|------------------------------------|--|
| 31 | If non-syndicated, name of Dealer: | [Not Applicable/[●]]   |
| 32 | U.S. Selling Restrictions:         | [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable] |

THIRD PARTY INFORMATION

[[●] has been extracted from [●]. [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 [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

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

**PART B**  
**OTHER INFORMATION**

## 1 Listing

- |   |  |
|---|--|
| (i) Listing:  | Listed on the Official List of the Irish Stock Exchange  |
| (ii) Admission to trading:  | Application has been made for the Bonds to be admitted to trading on the Main Securities Market of the Irish Stock Exchange. |
| (iii) Estimate of total expenses related to admission to trading: | [●]  |

## 2 Ratings

- |          |  |
|----------|--|
| Ratings: | <p>The Bonds to be issued have been rated:</p> <p>[Standard &amp; Poor's Credit Market Services Europe Limited: [●]]</p> <p>[Moody's Investors Service Limited: [●]]</p> |
|----------|--|

3 **[Interests of Natural and Legal Persons involved in the [Issue/Offer]]**

- $$[\bullet]$$

4      **Reasons for the offer, estimated net proceeds and total expenses**

- (i) [Reasons for the offer: [●]
- (ii) [Estimated net proceeds: [●]
- (iii) [Estimated total expenses: [●]

5 **[Fixed Rate Bonds only – Yield**

- Indication of yield: [●] per cent. per annum
- The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 **[Floating Rate Bonds Only – Historic Interest Rates]**

- Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].

- 7 **[Index-Linked or other variable-linked Bonds only – Performance of Index/Formula/Other Variable and Other Information Concerning the Underlying]**
- (i) Name of underlying index: [UK Retail Price Index (RPI) / Harmonised Index of Consumer Prices (HICP)]
- (ii) Information about the Index, its volatility and past and future performance can be obtained from: More information on [RPI / HICP / comparable index which may replace RPI/HICP] including past and current performance and its volatility and fall back provisions in the event of a disruption in the publication of [RPI / HICP], can be found at [http://www.statistics.gov.uk / http://www.aft.gouv.fr / relevant replacing website]
- 8 **[Dual currency Bonds only – Performance of Rate[s] of Exchange [●]]**
- 9 **Operational information**
- ISIN: [●]
- 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/[●]]
- Delivery: Delivery [against/free of] payment
- Names and addresses of initial Paying Agent(s): [●]
- Names and addresses of additional Paying Agent(s) (if any): [●]

## **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**

#### **UK 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 as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) 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**

While the Bonds are and continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of UK income tax. The Irish Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the Irish Stock Exchange if they are both admitted to trading on the Irish Stock Exchange and are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in countries in the European Economic Area. In addition, even if the Bonds are not so listed, no withholding or deduction for or on account of UK income tax will apply if the relevant interest is not “yearly interest”. Interest payable on Bonds with a maturity of less than one year from the date of issue and which are not issued under a scheme or arrangement the intention or 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 or relief is available, be paid under deduction of UK income tax at the basic rate (currently 20 per cent.). If UK withholding tax is imposed, the Issuer will not pay additional amounts in respect of the Bonds.

#### **Payments by a Financial Guarantor under the Financial Guarantees**

If a Financial Guarantor makes any payments in respect of interest on the Wrapped Bonds (or other amounts due under the Wrapped Bonds other than the repayment of amounts subscribed for such Bonds), such payments may be subject to UK withholding tax at the basic rate (currently 20 per cent.). 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**

Information may be required to be provided to HM Revenue & Customs relating to securities in certain circumstances. This may include value of the Bonds, amounts paid or credited with respect to the Bonds, details of the beneficial owners of the Bonds (or the persons for whom the Bonds are held), details of the persons who exercise control over entities that are, or are treated as, holders of the Bonds, details of the persons to whom payments derived from the Bonds are or may be paid and information and documents in connection with

transactions relating to the Bonds. Information may be required to be provided by, amongst others, the Issuer, the holders of the Bonds, persons by (or via) whom payments derived from the Bonds are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Bonds on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HM Revenue & Customs may be exchanged with tax authorities in other countries.

For the purposes of this section, “interest” should be taken, for practical purposes, as including payments made by the Financial Guarantor in respect of interest on Wrapped Bonds.

### **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.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

### **Irish Taxation**

The following is a summary based on the laws and practices currently in force in Ireland of Irish withholding tax on interest and addresses the tax position of investors who are the absolute beneficial owners of the Bonds. Particular rules not discussed below may apply to certain classes of taxpayers holding Bonds, including dealers in securities and trusts. The summary does not constitute tax or legal advice and the comments below are of a general nature only and it does not discuss all aspects of Irish taxation that may be relevant to any particular holder of Bonds. Prospective investors in the Bonds should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Bonds and the receipt of payments thereon under the laws of their country of residence, citizenship or domicile.

#### **Withholding tax**

Tax at the standard rate of income tax (currently 20 per cent.) is required to be withheld from payments of Irish source interest. The Issuer will not be obliged to withhold Irish income tax from payments of interest on the Bonds so long as such payments do not constitute Irish source income. Interest paid on the Bonds may be treated as having an Irish source if:

- (a) the Issuer is resident in Ireland for tax purposes; or
- (b) the Issuer has a branch or permanent establishment in Ireland, the assets or income of which is used to fund the payments on the Bonds; or

- (c) the Issuer is not resident in Ireland for tax purposes but the register for the Bonds is maintained in Ireland or (if the Bonds are in bearer form) the Bonds are physically held in Ireland.

It is anticipated that, (i) the Issuer is not and will not be resident in Ireland for tax purposes; (ii) the Issuer does not and will not have a branch or permanent establishment in Ireland; (iii) payments under the Bonds will not be derived from Irish sources or assets; (iv) bearer Bonds will not be physically located in Ireland and (v) the Issuer will not maintain a register of any registered Bonds in Ireland.

### **Encashment Tax**

Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) on any interest on the Bonds issued by a company not resident in Ireland, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any holder of the Bonds who is Irish resident.

Encashment tax does not apply where the holder of the Bonds is not resident in Ireland and has made a declaration in the prescribed form to the encashment agent or bank.

### **Other Tax Considerations**

#### **EU Savings Directive**

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 secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entity established, in that other Member State, except that Austria will 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 it elects 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 Council of the European Union has adopted the Amending Savings Directive which amends and broadens the scope of the requirements of the EU Savings Directive described above. The Amending Savings Directive expands the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for the benefit of) (i) an entity or legal arrangement effectively managed in a Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the EU Savings Directive) which indirectly benefit an individual resident in a Member State, may fall within the scope of the EU Savings Directive, as amended. The Amending Savings Directive requires Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The Council of the European Union has also adopted a Directive (the “Amending Cooperation Directive”) amending Council Directive 2011/16/EU on administrative cooperation in the field of taxation so as to introduce an extended automatic exchange of information regime in accordance with the Global Standard released by the OECD Council in July 2014. The Amending Cooperation Directive requires Member States to adopt national legislation necessary to comply with it by 31 December 2015, which legislation must apply from 1 January 2016 (1 January 2017 in the case of Austria). Council Directive 2011/16/EU (as amended) is generally broader in scope than the EU Savings Directive, although it does not impose withholding taxes, and provides that to the extent there is overlap of scope, Council Directive 2011/16/EU (as amended) prevails. The European Commission has therefore published a proposal for a Council Directive repealing the EU Savings Directive from 1 January 2016 (1 January 2017 in the case of Austria) (in each case subject to transitional arrangements). The proposal also provides that, if it is adopted,



Member States will not be required to implement the Amending Savings Directive. Information reporting and exchange will however still be required under Council Directive 2011/16/EU (as amended).

Investors who are in any doubt as to their position or would like to know more should consult their professional advisors.

### **The proposed financial transactions tax**

On 14 February 2013, the European Commission published a proposal (the “Commission’s Proposal”) for a Directive for a common financial transactions tax (“FTT”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “participating Member States”).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States, and the scope of any such tax is uncertain. Additional Member States may decide to participate. Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

### **Foreign Account Tax Compliance Act (“FATCA”)**

Certain provisions of U.S. law, commonly known as “FATCA”, impose reporting requirements and a withholding tax of 30 per cent. on, among other things, certain payments by non-U.S. financial institutions (“foreign passthru payments”) made to persons that fail to meet certain certification or reporting requirements. A number of jurisdictions (including the Cayman Islands and the UK) have entered into intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions.

Withholding under FATCA, is expected to begin on 1 January 2017 (at the earliest) in respect of “foreign passthru payments”. FATCA withholding in respect of foreign passthru payments is not required for “obligations” that have a fixed terms and are not treated as equity for U.S. federal income tax purposes, such as the Bonds, unless such obligations are issued or materially modified more than six months after the date on which the final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register.

In order to avoid becoming subject to withholding tax under FATCA, non-U.S. financial institutions must submit to certain reporting requirements (generally pursuant to an agreement with the IRS or under local law implementing an IGA (“IGA Legislation”)) or otherwise be exempt from the requirements of FATCA. Specifically, non-U.S. financial institutions that are not exempt from the requirements of FATCA may be required to identify and report to the government of the United States or another relevant jurisdiction certain information regarding “financial accounts” held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime.

In addition, a non-U.S. financial institution may be required to withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding. Non-U.S. financial institutions in a jurisdiction that has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any IGA Legislation) from payments that they make on securities such as the Bonds. However, the full impact of IGAs and IGA Legislation on reporting and withholding responsibilities under FATCA is unclear at this time and no assurance can be given that withholding under FATCA, IGAs or IGA Legislation will not become relevant with respect to payments made on or with respect to the Bonds in the future.

Even in the event that FATCA withholding were relevant with respect to payments on the Bonds, while the Bonds are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Bonds by the Issuer, the Guarantors, any paying agent and the Common Depositary, given that each of the entities in the payment chain between the Issuer and the participants in the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the securities. The documentation expressly contemplates the possibility that the Bonds may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Bonds will only be printed in remote circumstances.

If an amount in respect of FATCA withholding were to be deducted or withheld from interest, principal or other payments on the Bonds as a result of FATCA, none of the Issuer, the Guarantors, any paying agent or other person would, pursuant to the Terms and Conditions of the Bonds, be required to pay additional amounts as a result of the deduction or withholding. As a result, holders may receive less interest or principal than expected.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE BONDS AND HOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF BONDS SHOULD CONSULT ITS OWN TAX ADVISOR TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW IT MIGHT AFFECT SUCH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

## **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 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.

Credit ratings included or referred to in this Chapter 11 and in this Prospectus have been issued by the Rating Agencies, each of which is established in the European Community and registered under the CRA Regulation.

#### **Barclays Bank PLC**

Barclays Bank PLC (referred to in this section as the “Bank”) 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 (together with its subsidiary undertakings (the “Bank Group”)) is engaged in personal banking, credit cards, corporate and investment banking, wealth and investment management services. The Bank Group is structured around four core businesses: Personal and Corporate Banking, Barclaycard, Africa Banking and the Investment Bank. Businesses and assets which no longer fit the Bank Group’s strategic objectives, are not expected to meet certain returns criteria and/or offer limited growth opportunities to Barclays PLC (together with its subsidiary undertakings (the “Group”)), have been reorganised into Barclays Non-Core. These assets are designated for exit or run-down over time. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC. Barclays PLC is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-2 by Standard & Poor’s Credit Market Services Europe Limited, P-1 by Moody’s Investors Service Ltd. and F1 by Fitch Ratings Limited and the long-term unsecured unsubordinated obligations of Barclays Bank PLC are rated A- by Standard & Poor’s Credit Market Services Europe Limited, A2 by Moody’s Investors Service Ltd. and A by Fitch Ratings Limited.

Based on the Bank Group’s audited financial information for the year ended 31 December 2014,<sup>4</sup> the Bank Group had total assets of £1,358,693m (2013: £1,344,201m), total net loans and advances<sup>5</sup> of £470,424m (2013: £474,059m), total deposits<sup>6</sup> of £486,258m (2013: £487,647m), and total shareholders’ equity of £66,045m (2013: £63,220m) (including non-controlling interests of £2,251m (2013: £2,211m)). The profit before tax from continuing operations of the Bank Group for the year ended 31 December 2014 was £2,309m (2013: £2,885m) after credit impairment charges and other provisions of £2,168m (2013: £3,071m). The financial information in this paragraph is extracted from the audited consolidated financial statements of the Bank for the year ended 31 December 2014.

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<sup>4</sup> As noted in the financial statements of the Bank for the year ended 31 December 2014, the prior year (2013) has been restated to reflect the IAS 32 (revised) standard.

<sup>5</sup> Total net loans and advances include balances relating to both bank and customer accounts.

<sup>6</sup> Total deposits include deposits from bank and customer accounts.

## **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 78 countries and has almost 190,000 employees, including over 145,000 in Europe.

BNP Paribas holds key positions in its three activities:

(a) **Retail Banking,:**

A set of Domestic Markets, comprising:

- (i) French Retail Banking ('FRB');
- (ii) BNL banca commerciale ('BNL bc'), Italian retail banking;
- (iii) Belgian Retail Banking ('BRB'); and
- (iv) Other Domestic Markets activities including Luxembourg Retail Banking ('LRB')

International Retail Banking, comprising:

- (i) Europe-Mediterranean;
- (ii) BancWest;
- (iii) Personal Finance;

(b) **Investment Solutions; and**

(c) **Corporate and Investment Banking (CIB).**

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

At 30 June 2013, the BNP Paribas Group had consolidated assets of €1,861.3 billion (compared to €1,907.2 billion at 31 December 2012), consolidated loans and receivables due from customers of €23.6 billion (compared to €30.5 billion at 31 December 2012), consolidated items due to customers of €54.2 billion (compared to €39.5 billion at 31 December 2012) and shareholders' equity (Group share) of €6.1 billion (compared to €5.4 billion at 31 December 2012). Pre-tax net income at 30 June 2013 was €3 billion (compared to €9 billion at 30 June 2012). Net income, Group share, at 30 June 2013 was €3.3 billion (compared to €4.7 billion at 30 June 2012).

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 "A+" with negative outlook from Standard & Poor's, "A2" with stable outlook from Moody's and A+ with stable outlook from Fitch.

## **Commonwealth Bank of Australia**

Commonwealth Bank of Australia (referred to in this section as "CBA") is a public company with a market capitalisation of A\$137,500 million as at 2nd June 2015. CBA is governed by, and operates in accordance with the objects set out within its Constitution, the Corporations Act 2001 of the Commonwealth of Australia, the Listing Rules of the Australian Securities Exchange (which constitute the corporate governance regime of Australia) and certain provisions of the Commonwealth Banks Act 1959 of the Commonwealth of Australia (the "1959 Act").

CBA was incorporated on 17 April 1991 in the Australian Capital Territory and has Australian Business Number 48 123 123 124. Its registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW, Australia, 2000, telephone number +61 2 9118 1339.

At 30 June 2014, CBA and its consolidated subsidiaries had total assets of A\$791,000 million and international harmonised CET1 ratio of 12.1%. Net profit after income tax (statutory basis), for the year ended 30 June 2014 was A\$8,650 million.

As at the date of this Prospectus, CBA has been rated AA- by S&P, Aa2 by Moody's and AA- by Fitch.

CBA and its subsidiaries, with a full-time equivalent staff of over 52,000 at 30 June 2014, provides a comprehensive range of banking, financial, life and risk business insurance and funds management services in Australia, New Zealand, throughout Asia, the United States of America and in the United Kingdom. As at the date of this Prospectus, CBA was Australia's largest bank in terms of market capitalisation, loans and advances and deposits (source: Australian Prudential Regulatory Authority monthly Banking Statistics August 2014 (issued 30 September 2014) (Tables 2 and 4)).

### **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 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, Hong Kong 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, property finance companies, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the Deutsche Bank Group).

As of 31 December 2014, Deutsche Bank's subscribed capital amounted to €3,531 million consisting of 1,379.3 million 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 German Stock Exchanges. They are also listed on the New York Stock Exchange.

Deutsche Bank is authorised under German Banking Law (competent authority: European Central Bank) and, in the United Kingdom, by the Prudential Regulation Authority. It is subject to supervision by the European Central Bank and BaFin (Germany's Federal Financial Supervisory Authority), and is subject to limited regulation in the United Kingdom by the Prudential Regulation Authority and Financial Conduct Authority.

Deutsche Bank is a joint stock corporation with limited liability incorporated in the Federal Republic of Germany, Local Court of Frankfurt am Main, HRB No. 30 000; with branch registration in England and Wales BR000005 and its registered address at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Bank AG, London Branch is a member of the London Stock Exchange. Details about the extent of Deutsche Bank's authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available on request or from [https://www.db.com/en/content/eu\\_disclosures.htm](https://www.db.com/en/content/eu_disclosures.htm).

## **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. In 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 1999.

The HSBC Group is one of the world's largest banking and financial services organisations, with more than 6,100 offices in 73 countries and territories in Europe, Asia, Middle East and North Africa, North America and Latin America. Its total assets at 31 March 2015 were U.S.\$2,670 billion. HSBC Bank plc is the HSBC Group's principal operating subsidiary undertaking in Europe.

The short term senior unsecured and unguaranteed obligations of HSBC Bank plc are, as at the date of this Prospectus, rated P-1 by Moody's and A-1+ by Standard & Poor's and HSBC Bank plc has a short term issuer default rating of F1+ from Fitch. The long term senior unsecured and unguaranteed obligations of HSBC Bank plc are rated Aa2 by Moody's and AA- by Standard & Poor's and HSBC Bank plc has a long term issuer default rating of AA- from Fitch.

HSBC Bank plc is authorised by the Prudential Regulation Authority and is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. HSBC Bank plc's principal place of business in the United Kingdom is 8 Canada Square, London E14 5HQ.

## **JPMorgan Chase Bank, National Association**

JPMorgan Chase Bank, National Association (referred to in this section as the "Bank") is a wholly owned subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank 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 2015, JPMorgan Chase Bank, National Association, had total assets of \$2,096.1 billion, total net loans of \$652.2 billion, total deposits of \$1,426.4 billion, and total stockholder's equity of \$190.6 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as of 31 March 2015, 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 <http://www.fdic.gov>.

Additional information, including the most recent annual report on Form 10-K for the year ended 31 December 2014, of JPMorgan Chase & Co., the 2014 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 <http://www.sec.gov>.

## **Lloyds Bank plc**

Lloyds Bank plc ("Lloyds Bank"), formerly Lloyds TSB Bank plc, was incorporated under the laws of England and Wales on 20 April 1865 (registration number 2065). Lloyds Bank's registered office is at 25 Gresham Street,

London EC2V 7HN, United Kingdom. Lloyds Bank is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the Financial Conduct Authority and the PRA. Lloyds Bank is a wholly owned subsidiary of Lloyds Banking Group plc (together with its subsidiary undertakings from time to time, “Lloyds Banking Group”).

Lloyds Banking Group is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. The businesses of Lloyds Banking Group are in or owned by Lloyds Bank. Lloyds Banking Group owns Lloyds Bank directly which in turn owns HBOS plc directly.

### **Mitsubishi UFJ Securities International plc**

Mitsubishi UFJ Securities International plc (“MUSI”) was incorporated in England and Wales on 11 February 1983 pursuant to the Companies Act 1948 to 1985 as a company with liability limited by shares, and changed its name from Alnery No. 180 Limited to Mitsubishi Finance International Limited on 16 May 1983 prior to commencing business on 3 October, 1983. MUSI was re-registered as a public limited company on 3 August, 1989. MUSI’s registered office is located at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AJ, and its telephone number is 44 20-7628-5555. MUSI’s registration number is 01698498. MUSI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

On 1 April 1996, MUSI changed its name from Mitsubishi Finance International plc to Tokyo-Mitsubishi International plc, following the merger of its then parent The Mitsubishi Bank, Limited with The Bank of Tokyo, Ltd., the merged entity being named The Bank of Tokyo-Mitsubishi, Ltd. (“BTM”), which is now known as The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”). BTM subsequently became a wholly owned subsidiary of Mitsubishi Tokyo Financial Group, Inc (“MTFG”), which is now known as Mitsubishi UFJ Financial Group, Inc. (“MUFG”) following its merger with The Mitsubishi Trust and Banking Corporation (“MTBC”) in 2001.

Further to the global merger between MTFG and UFJ Holdings, Inc., MUSI changed its name from “Mitsubishi Securities International plc” to “Mitsubishi UFJ Securities International plc” on 3 October 2005.

MUSI is a principal part of the securities and capital markets arm of MUFG and provides a wide range of services in the worldwide securities and derivatives businesses to governments, their monetary authorities and central banks, state authorities, supranational organisations and corporations. MUSI is also engaged in market making and dealing in securities in the international securities markets, in swaps and various other derivative instruments and in the management and underwriting of issues of securities and securities investment.

MUSI continues to promote and develop its international capital markets business from London, dealing in its main areas of activity: debt and equity securities, derivatives and structured products.

The information in the preceding 5 paragraphs has been provided by Mitsubishi UFJ Securities International plc for use in this base prospectus and Mitsubishi UFJ Securities International plc is solely responsible for the accuracy of the preceding 5 paragraphs. Except for the foregoing 5 paragraphs, Mitsubishi UFJ Securities International plc in its capacity as a Hedge Counterparty, and its affiliates, have not been involved in the preparation of, and does not accept responsibility for, this base prospectus.

### **Morgan Stanley & Co. International plc ("MSIP")**

MSIP was incorporated in England and Wales on 28 October 1986 with registered number 2068222 and was incorporated as a company limited by shares under the Companies Act 1985 and operates under the Companies Act 2006. MSIP was reregistered as a public limited company on 13 April 2007. MSIP’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.



MSIP's short-term and long-term debt is currently rated P-2 and A3 with a stable outlook by Moody's and A-1 and A with a negative outlook by Standard & Poor's.

MSIP's ultimate parent undertaking is Morgan Stanley.

MSIP forms part of a group of companies including MSIP and all of its subsidiary and associated undertakings ("MSIP Group"). The principal activity of the MSIP Group is the provision of financial services to corporations, governments and financial institutions. MSIP operates globally with a particular focus in Europe. It operates branches in the Dubai International Financial Centre, France, Korea, the Netherlands, New Zealand, Poland, the Qatar Financial Centre and Switzerland.

The MSIP Group provides capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including foreign exchange and commodities; and investment activities.

MSIP conducts an over-the-counter derivatives business, including commodity swaps and currency swaps with institutional clients in various domestic and international markets. Morgan Stanley Capital Group Inc. also trades physical commodities in the areas of precious metals, base metals, electricity and energy (oil/gas/emissions).

MSIP currently has debt securities listed on the regulated market of the London Stock Exchange.

### **National Australia Bank Limited (ABN 12 004 044 937)**

National Australia Bank Limited ("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 1, 800 Bourke Street, Docklands, Victoria 3008, Australia (telephone number +61 3 8872 2461).

NAB is an international financial services group that provides a comprehensive and integrated range of financial products and services, with over 12,700,000 customers and 42,800 people, operating more than 1,300 stores and Service Centres globally. NAB's major financial services franchises are in Australia, but also operates businesses in New Zealand, Asia, the United Kingdom and the United States.

### **Royal Bank of Canada**

Royal Bank of Canada (referred to in this section as "Royal Bank") is a Schedule I bank under the Bank Act (Canada), which constitutes its charter and governs its operations. Royal Bank's corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario M5J 2J5, Canada, and its head office is located at 1 Place Ville Marie, Montreal, Quebec H3C 3A9, Canada. Royal Bank is the parent company of RBC Europe Limited, a Dealer and Hedge Counterparty.

Royal Bank is Canada's largest bank, and one of the largest banks in the world, based on market capitalization. Royal Bank is one of North America's leading diversified financial services companies and provides personal and commercial banking, wealth management, insurance, investor services and capital markets products and services on a global basis. Royal Bank and its subsidiaries employ approximately 78,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 39 other countries.

Royal Bank had, on a consolidated basis, as at 31 January, 2015, total assets of C\$1,086.7 billion (approximately US\$854.9 billion\*), equity attributable to shareholders of C\$55.7 billion (approximately US\$43.8 billion\*), and total deposits of C\$654.7 billion (approximately US\$515.1 billion\*). The foregoing figures were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and have been extracted and derived from, and are qualified by reference to, Royal Bank's unaudited Interim Condensed Consolidated Financial Statements included in Royal Bank's quarterly Report to Shareholders for the fiscal period ended 31 January, 2015.

The senior long-term unsecured debt of Royal Bank has been assigned ratings of AA (negative outlook) by Standard & Poor's Ratings Services, Aa3 (negative outlook) by Moody's Investors Service and AA (stable outlook) by Fitch Ratings. Royal Bank's common shares are listed on the Toronto Stock Exchange, the New York Stock Exchange and the Swiss Exchange under the trading symbol "RY." Its preferred shares are listed on the Toronto Stock Exchange.

### **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 154,000 employees across 76 countries, who serve more than 32 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:

- (a) Retail Banking in France under the Société Générale, Credit du Nord and Boursorama brands;
- (b) 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;
- (c) 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 March 4 2013 Société Générale's long-term rating was A2 at Moody's, A+ at Fitch and A at Standard & Poor's.

### **Sumitomo Mitsui Banking Corporation ("SMBC")**

SMBC is a Japanese registered financial institution, formed over many years through the merger and consolidation of the Japanese financial system. SMBC is a 100% owned subsidiary of Sumitomo Mitsui Financial Group ("SMFG"). SMFG, as at 31 March 2015 was long term rated A / A- / AA- by S&P, Fitch and JCR respectively. SMBC, as at 31 March 2015 was long term rated A1 / A+ / A- / AA by Moody's, S&P, Fitch and JCR respectively.

SMBC is an international financial institution operating in the Asia-Pacific region, Europe, the Middle East, Africa and the Americas. As at 31 March 2015 it had total assets of ¥154,724.1 billion and deposits of ¥91,337.7 billion

SMBC directly or through various group owned operations offers a full suite of banking products, including but not limited to, loan arranging and syndication, project financing, leasing, derivatives, equity and debt capital markets solutions and trade finance. SMBC is regulated by the Japanese financial regulator and its UK business, through

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\* As at 31 January 2015: C\$1.00 = US\$0.786720.

SMBC Europe Ltd, is regulated by the UK regulators, the Financial Conduct Authority and the Prudential Regulation Authority.

### **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 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. 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.

## 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 Bank plc, J.P. Morgan Securities plc, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc, National Australia Bank Limited (ABN 12 004 044 937), 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 Obligor has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Bonds issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantors or the Issuer’s or the Guarantors’ affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## **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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations promulgated 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 Bonds, 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 Bonds 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 Bonds, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

“THIS BOND 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 or drawdown prospectus 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 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,
- (e) 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 Central Bank of Ireland for the Bonds to be admitted to listing on the Official List and to trading on the Main Securities 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 or Drawdown Prospectus (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, 7 June 2012, 6 March 2014 and 4 June 2015. 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 Main Securities 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 Main Securities 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 is expected to be granted on or around 26 June 2015.

#### **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 physically 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 2014 and the year ended 31 March 2015;
- (c) the audited financial statements of TWUF for the year ended 31 March 2014 and the year ended 31 March 2015;
- (d) the audited financial statements for the Issuer for the year ended 31 March 2014 and the year ended 31 March 2015;
- (e) the audited financial statements for TWH for the year ended 31 March 2014 and the year ended 31 March 2015;
- (f) the audited financial statements for TWUCFH for the year ended 31 March 2014 and the year ended 31 March 2015;
- (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, the base prospectus dated 24 June 2011, the base prospectus dated 18 June 2012 and the base prospectus dated 11 March 2014 in respect of the Programme;

- (h) a copy of this Prospectus;
- (i) any Final Terms or Drawdown Prospectus relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.;
- (j) each Investors' Report;
- (k) the Security Agreement;
- (l) each Financial Guarantee and all related Endorsements relating to each Sub-Class of Wrapped Bonds issued under the Programme;
- (m) each G&R Deed; and
- (n) the Bond Trust Deed.

### **Transparency Directive**

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 Conduct Authority (the "FCA") of the new Transparency Rules, which were combined with the FCA'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 seek an alternative listing of the Bonds on an exchange-regulated market or on a stock exchange outside the EU.

### **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 or Drawdown Prospectus. 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 or Drawdown Prospectus.

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 or Drawdown Prospectus.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of each of the Issuer, TWUL, TWUF, TWH or TWUCFH since 31 March 2015. There has been no material adverse change in the financial position or prospects of each of the Issuer, TWUL, TWUF, TWH or TWUCFH since 31 March 2015.

### **Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which TWUL is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of TWUL.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which TWH is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of TWH.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which TWUCFH is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of TWUCFH.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which TWUF is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of TWUF.

### **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 2011, 30 September 2012, 30 September 2013 and 30 September 2014 (which were subject to a review by the Auditors in accordance with the International Standard on Review Engagements and are available at <http://www.thameswater.co.uk/about-us/4229.htm>, but are not incorporated into this Prospectus) 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 LLP (which term shall include all predecessor firms including 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, 31 March 2012 (including comparative information), 31 March 2013, 31 March 2014 and 31 March 2015, 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 years ended 31 March 2012, 31 March 2013, 31 March 2014 and 31 March 2015 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 LLP 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 2013, 31 March 2014 and 31 March 2015 have 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, 31 March 2011 and 31 March 2012 have been delivered to the Registrar of Companies.

KPMG LLP 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 LLP 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 or Drawdown Prospectus 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.

### **Listing Agent**

The Irish Listing Agent is Maples and Calder and the address of its registered office is 75 St. Stephen's Green, Dublin 2, Ireland. Maples and Calder is acting solely in its capacity as listing agent for the Issuer in connection with the Bonds and is not itself seeking admission of the Bonds to the Official List or to trading on the Main Securities Market of the Irish Stock Exchange.

**CHAPTER 14**  
**FINANCIAL INFORMATION**

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Registered no: 06195202 (England & Wales)

**Thames Water Utilities Holdings Limited**

**Directors' report and financial statements**

**For the year ended 31 March 2014**



## **Thames Water Utilities Holdings Limited**

### **Directors' report and financial statements for the year ended 31 March 2014**

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## **Thames Water Utilities Holdings Limited**

### **Directors and advisors**

#### **Directors**

Sir Peter Mason KBE - Chairman  
R Blomfield-Smith  
E Beckley  
D Buffery (appointed 13 December 2013)  
C R Deacon  
Dr P Dyer  
S R Eaves  
C Heathcote (appointed 21 June 2013)  
N Horler (appointed 14 April 2014)  
D J Shah OBE  
L Webb  
D Xu

#### **Registered auditor**

KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

#### **Company Secretary & registered office**

J E Hanson  
Cleanwater Court  
Vaslem Road  
Reading  
Berkshire  
RG1 8DB

# Thames Water Utilities Holdings Limited

## Strategic report

The directors present their strategic report for the Company for the year ended 31 March 2014.

### Review of business

The principal activity of Thames Water Utilities Holdings Limited ("the Company") is that of an intermediate holding company in the Kemble Water Holdings Limited group of companies ("the Group").

The only income of the Company is dividends from its main trading subsidiary, Thames Water Utilities Limited ("TWUL"), which are at the discretion of the TWUL board. The only expense is interest on loans from its subsidiary and its immediate parent, which are charged at pre-agreed rates as detailed in note 10.

The Company is a member of the Whole Business Securitisation Group and acts as an obligor to debt issued by TWUL and its subsidiary financing companies.

### Thames Tideway Tunnel – changes to financial covenants regarding the securitisation group

Given the size and scale of the Thames Tideway Tunnel and its importance to UK infrastructure, TWUL has been in dialogue with Defra, Ofwat and HM Treasury as to the preferred way to deliver the Thames Tideway Tunnel Project (the "TTT Project"). TWUL, Defra, Ofwat and HM Treasury have together developed a proposal whereby the TTT Project is delivered by an independent infrastructure provider (the "IP"). Such infrastructure providers were specifically introduced by recent legislation to deliver projects that: (i) are of such a size and complexity that they threaten the incumbent undertaker's ability to provide services for its customers, and; (ii) where "specifying" the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project was not specified. Projects meeting these criteria can be specified as such by Ofwat or the Secretary of State.

The IP will not be owned by TWUL but will instead be an independent entity with its own licence and separately regulated by Ofwat. The IP will also be responsible for raising its own capital. The IP will by law and by regulation be required to design, construct, finance, operate and maintain the Thames Tideway Tunnel as specified.

TWUL will collect additional revenues from customers which it will pass to the IP and its licence will be amended to include the ability and obligation to collect such additional revenues. Importantly, TWUL will only be required to pass such revenues to the IP on a 'pay when paid' basis i.e. TWUL will only be required to pass to the IP the relevant proportion of its revenues (commensurate with the proportion of the IP charges to TWUL's total wastewater charges) when it has collected them. In addition to the collection of revenues, TWUL will be involved in the procurement of the IP, ensuring that the Thames Tideway Tunnel connects correctly to TWUL's existing sewer network and the completion of the certain preparatory works.

TWUL has received accounting advice that, as a result of the delivery model for the TTT Project, the financial ratios will no longer operate as originally intended during the construction and operation phase (the "Accounting Effect"). This unintended accounting consequence of the delivery of the Thames Tideway Tunnel could not have been envisaged at the time TWUL's financing agreements were put in place in 2007.

The Accounting Effect in broad terms means that during construction phase of the TTT, TWUL's cash interest cover ratios would benefit from an increase in revenues without a corresponding increase in debt service obligations whilst conversely, during operational phase (the earliest date for which will be in 2024) of the Thames Tideway Tunnel, certain of TWUL's leverage ratios would be affected by an increased 'finance lease liability' without any additional asset RCV being attributed to TWUL.

The board of TWUL does not anticipate that the credit quality of Thames Water should be materially affected by the implementation of the TTT Project through the IP delivery and as such TWUL sought the approval of secured creditors to change the terms of certain finance documents to neutralise the impact of the Accounting Effect on its financial covenants.



## **Thames Water Utilities Holdings Limited**

### **Strategic report (continued)**

TWUL issued an announcement to the London Stock Exchange on 22 April 2014 launching the consent solicitation process. Bondholder meetings took place on 15 May 2014 the proposal was passed on 15 May 2014 by a vote from a total of c 88% of all relevant secured creditors. Further to this consent, the proposed changes will be implemented on satisfaction of further specific conditions which are: the issue of the TTT Project Specification Notice and; the affirmation of credit ratings at specific levels as set out in relevant finance documents.

#### **Results and performance**

For the financial year ended 31 March 2014, the Company made a profit after tax of £14.9m (2013: £17.2m).

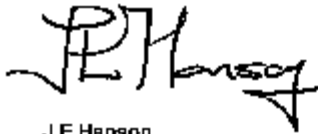
#### **Principal risk and uncertainties**

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's annual report which does not form part of this report. The Group's annual report is available from the address shown in note 14 on page 16.

#### **Future outlook**

The Company is expected to continue to be an intermediate holding company in the Group for the foreseeable future.

By the order of the Board:



J E Hanson  
Company Secretary

Clearwater Court  
Vestern Road  
Reading  
Berkshire RG1 8DB

5 June 2014

## **Thames Water Utilities Holdings Limited**

### **Directors' report**

The directors present their report and the audited financial statements for the year ended 31 March 2014.

The registered company number is 06195202.

#### **Future outlook**

The future outlook of the Company is discussed in the strategic report.

#### **Dividends**

The Company has not paid any dividends during the year (2013: £nil) and the directors do not propose a final dividend (2013: £nil).

#### **Financial risk management**

The Company has access to the Chief Executive and his executive team (of Thames Water Utilities Limited), who also manage the wider Kemble Water Holding Group on a day to day basis on behalf of the Directors of the individual group companies. They receive regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Company's treasury operations are managed centrally by a small specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors of the Company's ultimate parent company, Kemble Water Holdings Limited.

The operation of the treasury function is governed by policies and procedures that set out specific guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Company.

#### **Directors**

The directors who held office during the year ended 31 March 2014 and to the date of signing were

Sir Peter Mason KBE - Chairman  
E Beckley  
R Blomfield-Smith  
D Buttery (appointed 13 December 2013)  
C R Deacon  
Dr P Dyer  
S R Eaves  
C Heathcote (appointed 21 June 2013)  
G I W Parsons (resigned 21 June 2013)  
N Horler (appointed 14 April 2014)  
K Fosseke (appointed 2 January 2013, resigned 24 May 2013)  
D J Shah OBE  
L Webb  
D Xu

During the year under review, none of the directors had significant contracts with the Company or any other body corporate other than their contracts of service.

## Thames Water Utilities Holdings Limited

### Directors' report (continued)

#### Directors (continued)

The following directors have formally appointed alternate directors to represent them when they are unavailable:

Director	Alternate Director
E Beckley	G Parsons
R Blomfield-Smith	P Noble
C R Deacon	R Evenden (resigned 16 August 2013)
Dr P Dyer	R Greenlaaf (resigned 31 July 2013)
S R Eaves	M C Hill
C Heathcote (appointed 21 June 2013)	G Parsons (appointed 21 June 2013)
D J Shah OBE	C Van Heijningen
L Webb	C Pham
K Roseke (resigned 24 May 2013)	D Rees (resigned 24 May 2013)
W Xu (appointed 29 October 2012)	F Sheng

#### Political donations and expenditure

No political donations were made by the Company during the year (2013: £nil).

#### Disclosure of information to the auditor

The directors who hold office at the date of approval of this director's report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and these remain in force at the date of this report.

#### Auditor

Our external auditor has informed us that for administrative reasons and to instigate the orderly wind down of business, they wished to formally change the entity which conducts the Thames Water Utilities Holdings Limited audit from KPMG Audit Pte to KPMG LLP.

KPMG Audit Pte resigned as auditor on 30 October 2013 pursuant to section 516 of the Companies Act 2006. At the Extraordinary General Meeting held on 30 October 2013 KPMG LLP was appointed as auditor of the company under section 485 of the Companies Act.

Approved by the Board of Directors on 5 June 2014 and signed on its behalf by



J E Hanson  
Company Secretary

## **Thames Water Utilities Holdings Limited**

### **Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **Independent Auditor's Report to the Members of Thames Water Utilities Holdings Limited**

We have audited the financial statements of Thames Water Utilities Holdings Limited for the year ended 31 March 2014 set out on pages 9 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with requirements of the Companies Act 2006.

### **Opinion on other matters as prescribed by the Companies Act 2006**

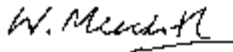
In our opinion the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Independent Auditor's Report to the Members of Thames Water Utilities Holdings Limited (continued)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**William Meredith (Senior Statutory Auditor)**

**For and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
15 Canada Square  
London  
E14 5GL

5 June 2014

## Thames Water Utilities Holdings Limited

### Profit and loss account

	Note	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
income from fixed assets; investment	2	208.5	231.4
interest payable and similar charges	3	(223.3)	(244.5)
<b>Loss on ordinary activities before taxation</b>		<b>(14.8)</b>	<b>(13.1)</b>
Tax credit on loss on ordinary activities	5	29.7	30.3
<b>Profit for the year</b>	12	<b>14.9</b>	<b>17.2</b>

All amounts relate to continuing operations.

The Company has no recognised gains and losses other than the profits above and therefore no separate Statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents.

The notes on pages 11 to 18 form part of these financial statements.

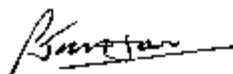
## Thames Water Utilities Holdings Limited

### Balance sheet

	Note	As at 31 March 2014 £m	As at 31 March 2013 £m
<b>Fixed assets</b>			
Fixed asset investments	7	4,250.0	4,250.0
<b>Current assets</b>			
Debtors	8	30.8	47.0
<b>Creditors: amounts falling due within one year</b>	9	(167.2)	(198.3)
<b>Net current liabilities</b>		<b>(136.4)</b>	<b>(151.3)</b>
<b>Total assets less current liabilities</b>		<b>4,113.6</b>	<b>4,098.7</b>
<b>Creditors: amounts falling due after more than one year</b>	10	<b>(3,995.1)</b>	<b>(3,995.1)</b>
<b>Net assets</b>		<b>118.5</b>	<b>103.6</b>
<b>Capital and reserves</b>			
Called-up share capital	11	-	-
Profit and loss account	12	118.5	103.6
<b>Shareholder's funds</b>	13	<b>118.5</b>	<b>103.6</b>

The notes on pages 11 to 16 form part of these financial statements.

The financial statements on pages 9 to 16 were approved by the Board of Directors on 5 June 2014 and signed on its behalf by:



Sir Peter Mason KBE  
Chairman

Registered no: 06195202



# Thames Water Utilities Holdings Limited

## Notes to the financial statements

### † Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which the Company considered material in relation to the financial statements.

#### Basis of preparation

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules.

The Company is exempt by virtue of s403 of the Companies Act 2006 from the requirement to prepare Group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

#### Going concern

The directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net current liabilities of the Company and the requirement for ongoing support from the ultimate parent. This is based upon a review of the Groups budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The Board also took into account potential contingent liabilities and other risk factors. Kemble Water Holdings Limited, the ultimate parent company has confirmed that it will continue to provide support to Thames Water Utilities Holdings Limited to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements.

#### Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements, which have been applied consistently are set out below.

#### (a) Investments

Investments held as fixed assets are stated at cost less provisions for impairment in value. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

#### (b) Related party disclosures

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, the Company has taken advantage of the exemption contained in Financial Reporting Standards ("FRS") 8 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of Kemble Water Holdings Limited, within which this Company is included, can be obtained from the address given in note 14.

#### (c) Cash flow

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements, which contain a cashflow statement.

#### (d) Dividends

Dividend income is recognised when there is a legal right to receive.

#### (e) Securitisation guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

## Thames Water Utilities Holdings Limited

### Notes to the financial statements (continued)

#### 1 Principal accounting policies (continued)

##### (f) Taxation

The tax expense represents the current tax charge or credit for the year.

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit for the period and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Taxable profit can differ from the net profit as reported in the profit and loss account because it may exclude items of income or expense that are taxable or deductible in other periods and it may further exclude items that are never taxable or deductible.

Consideration receivable or payable in respect of losses surrendered or claimed by way of Group relief is dealt with in the profit and loss account.

##### *Deferred taxation*

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Deferred tax is charged or credited in the profit and loss account except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with via the statement of total recognised gains and losses.

##### (g) Financial risk management

The financial risk management of the Company is discussed in the Directors' Report on page 4.

#### 2 Income from fixed asset investment

The investment income of £208.5m (2013: £231.1m) relates to dividends received from the Company's direct subsidiary, Thames Water Utilities Limited.

#### 3 Interest payable and similar charges

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Payable to Group undertakings: On loans		
- payable on outstanding consideration payable to immediate parent undertaking	(198.0)	(199.9)
- payable on loans payable to direct subsidiary undertaking	(25.3)	(44.6)
	(223.3)	(244.5)

# Thames Water Utilities Holdings Limited

## Notes to the financial statements (continued)

### 4 Staff numbers and costs

The Company has no employees (2013: none).

The current directors receive emoluments in respect of their services as directors of Kumbale Water Holdings Limited, the ultimate parent company. No emoluments were paid in respect of their roles of directors of the Company (2013: £nil) and there are no retirement benefits accruing in either year.

Aggregate emoluments for the Group are disclosed in the financial statements of the ultimate parent company.

### 5 Taxation on profit on ordinary activities

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
<b>Current tax:</b>		
Amounts receivable in respect of group relief for the year	38.0	30.3
Adjustment in respect of prior years	(8.3)	-
<b>Total tax credit for the year</b>	<b>29.7</b>	<b>30.3</b>

The current tax credit for the year is higher (2013: higher) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Loss on ordinary activities before taxation	(14.8)	(13.1)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23% (2013: 24%)	3.4	3.1
Effects of:		
Non taxable income (dividend from UK company)	48.0	55.5
Surplus tax losses	(13.4)	(28.3)
Adjustment to tax credit in prior years	(8.3)	-
<b>Current tax credit for the year</b>	<b>29.7</b>	<b>30.3</b>

There is an unrecognised deferred tax asset in respect of surplus tax losses where the Company does not anticipate taxable profits in the immediate future. The amount of deferred tax asset unrecognised at 20% and 21% is:

	As at 31 March 2014 £m	As at 31 March 2013 £m
Deferred tax asset not recognised in respect of surplus tax losses	122.1	120.7

There is no tax charge or credit for deferred tax (2013: £nil).

#### Factors affecting future tax rate

A reduction in the corporation tax rate was substantively enacted on 3 July 2013, reducing the rate from 24% to 23% with effect from 1 April 2013. The March 2013 Budget announced that the corporation tax rate will further reduce to 20% from 1 April 2015. As the Company has no deferred tax asset or liability, there is no effect on these financial statements other than the unrecognised deferred tax.

## Thames Water Utilities Holdings Limited

### Notes to the financial statements (continued)

#### 6 Auditor's remuneration

The auditor's remuneration (for audit services only) of £1,760 (2013: £1,721) was borne by Thames Water Limited (in both years). No other fees were payable to KPMG LLP in respect of this Company in this year (2013: £nil)

#### 7 Fixed asset investments

	Interests in Group undertaking £m
<b>Cost at 1 April 2013 and 31 March 2014</b>	<b>4,250.0</b>

In the opinion of the directors, the value of the investments in the subsidiary company is not less than the amount included in the balance sheet.

For details of Group undertakings, see table below:

	Year end	% owner- ship	Country of incorporation	Description of shares held	Nature of business
<b>Direct:</b>					
Thames Water Utilities Limited	31 March	100	England & Wales	Ordinary £1	Water and waste water Company
<b>Indirect (through Thames Water Utilities Limited):</b>					
Thames Water Utilities Finance Limited	31 March	100	England & Wales	Ordinary £1	Financing Company
Thames Water Utilities Cayman Finance Limited	31 March	100	Cayman Islands*	Ordinary \$1	Financing Company

\* Thames Water Utilities Cayman Finance Limited is resident in the UK for tax purposes.

In accordance with S410 of the Companies Act 2006, information is given only in respect of such undertakings whose financial position principally affects the figures of the Company. A full list of subsidiary undertakings will be filed at Companies House with the Company's annual return.

#### 8 Debtors

	As at 31 March 2014 £m	As at 31 March 2013 £m
Group related debtor	30.8	47.0

# Thames Water Utilities Holdings Limited

## Notes to the financial statements (continued)

### 9 Creditors: amounts falling due within one year

	As at 31 March 2014 £m	As at 31 March 2013 £m
Interest payable to Thames Water Limited, immediate parent	142.3	153.7
Interest payable to Thames Water Utilities Limited, direct subsidiary	24.9	44.5
Amounts owed to Group undertakings	167.2	198.3

### 10 Creditors: amounts falling due after more than one year

Amounts owed to Group undertakings:	As at 31 March 2014 £m	As at 31 March 2013 £m
Inter-company loans	3,895.1	3,595.1

Amounts owed to Group undertakings include the following unsecured loans:

- £1,980.1m (2013: £1,960.1m) owed to Thames Water Limited, the immediate parent company, being the unpaid deferred consideration on the purchase of Thames Water Utilities Limited, on which interest is payable at 10% (2013: 10%). Repayment is at the discretion of the Company but must be repaid by 2056. Interest repayment on this loan is determined by agreement between both parties.
- £2,015.0m (2013: £2,015.0m) owed to Thames Water Utilities Limited, the direct subsidiary company, on which interest is based on LIBOR + 0.35% (2013: LIBOR + 0.35%). The loan is repayable by 21 August 2037.

### 11 Called-up share capital

	As at 31 March 2014 £	As at 31 March 2013 £
<b>Allotted, called-up and fully paid</b>		
2 ordinary shares of £1 each (2013: 2 ordinary shares of £1 each)	2	2

### 12 Profit and loss account

	As at 31 March 2014 £m	As at 31 March 2013 £m
At the beginning of the year	103.6	86.4
Profit for the year	14.9	17.2
<b>At the end of the year</b>	<b>118.5</b>	<b>103.6</b>

## Thames Water Utilities Holdings Limited

### Notes to the financial statements (continued)

#### 13 Reconciliation of movements in shareholder's funds

	As at 31 March 2014 £m	As at 31 March 2013 £m
Opening shareholder's funds	103.6	86.4
Profit for the year	14.9	17.2
<b>Closing shareholder's funds</b>	<b>118.5</b>	<b>103.6</b>

#### 14 Immediate and ultimate parent company and controlling party

The immediate parent undertaking is Thames Water Limited, a company incorporated in the United Kingdom.

Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and the smallest group to consolidate these financial statements.

The Directors consider Kemble Water Holdings Limited, a company incorporated in the United Kingdom, to be the ultimate and controlling party and the largest group to consolidate these financial statements.

Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office, Thames Water Group, Clearwater Court, Vastem Road, Reading, Berkshire, RG1 8DB.

#### 15. Post balance sheet events

On 22 April 2014 TWUL issued an announcement to the London Stock Exchange launching the consent solicitation process to seek the approval of secured creditors to change the terms of certain finance documents. Bondholder meetings took place on 15 May and the proposal was passed on 16 May. Further to this consent, the proposed changes will be implemented on satisfaction of further specific conditions which are the issue of the TTT Project Specification Notice and the affirmation of credit ratings at specific levels as set out in relevant finance documents.

Whilst these changes are considered important to the securitisation group, there is no immediate financial effect.

Registered no: 06195202 (England and Wales)

**Thames Water Utilities Holdings Limited**

Annual report and financial statements

For the year ended 31 March 2015

## Annual report and financial statements for the year ended 31 March 2015

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## Directors and advisors

### Directors

Sir Peter Mason KBE – Chairman

E Beckley

R Blomfield-Smith (resigned 13/03/2015, appointed 27/04/2015)

D Buffery (resigned 01/01/2015, appointed 13/03/2015)

R Greenleaf (appointed 13/03/2015)

G Lambert (appointed 15/10/2014)

P Noble (appointed 13/03/2015)

G Tucker (appointed 17/04/2015)

Y Wang (appointed 01/07/2014)

L Webb

### Registered auditor

KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

### Company Secretary and registered office

D Hughes

Clearwater Court

Vastern Road

Reading

Berkshire

RG1 8DB

## Strategic report

The directors present their strategic report for Thames Water Utilities Holdings Limited ("the Company") for the year ended 31 March 2015.

### Business review

The principal activity of the Company is that of an intermediate holding company in the Kemble Water Holdings Limited Group of companies ("the Group"). The Company is the immediate parent company of Thames Water Utilities Limited ("TWUL"), a regulated provider of water and sewerage services.

Income for the year is represented wholly by dividends received from its immediate subsidiary entity, which are paid at the discretion of the TWUL board. Expense items are wholly derived from interest payable on loans to other companies within the Group, which are charged at pre-agreed rates as detailed in note 10.

The Company is part of a securitisation group of companies which comprises Thames Water Utilities Limited, Thames Water Utilities Cayman Finance Limited, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited ("the securitisation group"). The payment of all amounts owing in respect of the external debt issued by any company within the securitisation group is unconditionally and irrevocably guaranteed by all remaining companies within the securitisation group.

A Corporate Family Rating ("CFR") is assigned by Moody's and reflects the consolidated rating of the different classes of outstanding debt obligations issued by Thames Water Utilities Cayman Finance, Thames Water Utilities Finance Limited and TWUL. TWUL's licence requires an investment grade credit rating of at least Baa3 from Moody's or BBB- from Standard & Poor's ("S&P") to be maintained, as this ensures that TWUL can access the debt funding that is needed to support the delivery of the investment programme in an efficient and cost effective manner.

On 27 February 2015, Moody's affirmed the CFR at Baa1 with a stable outlook. With regards to risk associated with the Thames Tideway Tunnel ("TTT"), Moody's stated, "Moody's also believes that key uncertainties resulting in incremental risks that TWUL is exposed to in relation to the TTT project are adequately mitigated through a specific mechanism for an interim price review in certain circumstances outside of management's control." Additionally, Moody's issued revised guidance that TWUL should maintain leverage of around 80% or under and adjusted interest cover at around 1.3x or over.

In September 2014 S&P moved the A- (Class A) and BBB (Class B) credit ratings of the Company to negative outlook, at this time S&P were focussed on limited headroom in financial ratios and risks in relation to operational and customer service performance. S&P has not issued an updated credit opinion subsequent to the Final Determination.

On 24 March 2015 TWUL launched a proposal to introduce a new conformed interest cover covenant to reflect recent changes to the regulatory framework. This proposal successfully passed on 10 April 2015. In the original "Adjusted ICR" covenants, Current Cost Depreciation ("CCD") and Infrastructure Renewals Charge ("IRC") - which are a regulatory proxy for capital maintenance - are subtracted from net cash flow in order to make this calculation. From 1 April 2015, Ofwat ceased to publish CCD and IRC effectively rendering the covenants not fit for purpose as there would be no adjustment to cash to reflect the amounts which TWUL is required to spend on maintenance. To address this, a new covenant has been introduced to take account of required maintenance spend by TWUL using the relevant new regulatory building blocks. This is consistent with the affirmation of our credit rating by Moody's on 27 February 2015.

### Results and performance

For the financial year ended 31 March 2015 the Company made a profit after tax of £26.9m (2014: £14.9m). This performance has been largely driven by reduced dividend income of £189.9m (2014: £208.5m) received from the Company's immediate subsidiary entity, TWUL combined with a larger tax credit of £80.3m (2014: £29.7m) arising on sale of prior year tax losses.

### **Principal risks and uncertainties**

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's annual report which does not form part of this report.

The Group's annual report is available from the address in note 15 to the financial statements on page 16.

### **Future outlook**

The Company is expected to continue to act as an intermediate holding company within the Group for the foreseeable future.

This strategic report was approved by the Board of Directors on 4 June 2015 and signed on its behalf by:

**Sir Peter Mason KBE**  
Chairman

Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB



## Directors' report

The directors present their report and the audited financial statements of Thames Water Utilities Holdings Limited for the year ended 31 March 2015. The directors consider that the annual report and the audited financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance and strategy.

The registered company number is 06195202.

### Future outlook

The future outlook of the Company is discussed in the strategic report.

### Dividends

The Company has paid no dividends during the financial year (2014: £nil) and the directors do not recommend the payment of a final dividend (2014: £nil).

### Directors

The directors who held office during the year ended 31 March 2015 and to the date of signing were:

Sir P Mason KBE (Chairman)

E Beckley

R Blomfield-Smith (resigned 13/03/2015, appointed 27/04/2015)

D Buffery (resigned 01/01/2015, appointed 13/03/2015)

C R Deacon (resigned 17/04/2015)

Dr P Dyer (resigned 13/03/2015)

S Eaves (resigned 15/10/2014)

R Greenleaf (appointed 13/03/2015)

C Heathcote (appointed 22/07/2014, resigned 13/03/2015)

N Horler (appointed 14/04/2014, resigned 13/03/2015)

G Lambert (appointed 15/10/2014)

P Noble (appointed 13/03/2015)

K Roseke (appointed 13/03/2015, resigned 27/04/2015)

D J Shah OBE (resigned 13/03/2015)

C Van Heijningen (appointed 01/01/2015, resigned 13/03/2015)

G Tucker (appointed 17/04/2015)

Y Wang (appointed 01/07/2014)

L Webb

D Xu (resigned 01/07/2014)

During the year under review, none of the directors had any contracts with the Company or any other body corporate other than their contracts of service.

The following directors have formally appointed alternate directors to represent them when they are unavailable:

Director	Alternate Director
E Beckley	G Parsons (resigned 11/09/2014) R Greenleaf (appointed 11/09/2014, resigned 13/03/2015)
R Blomfield-Smith (resigned 13/03/2015, appointed 27/04/2015)	D Rees (appointed 27/04/2015)
D Buffery (resigned 01/01/2015, appointed 13/03/2015)	D Rees (appointed 22/04/2014, resigned 01/01/2015)
G Lambert (appointed 15/10/2014)	R-J Bakker (appointed 13/03/2015) M Hill (appointed 15/10/2014, resigned 13/03/2015)
P Noble (appointed 13/03/2015)	P Hofbauer (appointed 13/03/2015)
G Tucker (appointed 17/04/2015)	C Deacon (appointed 17/04/2015)
Y Wang (appointed 01/07/2014)	F Sheng
L Webb	C Pham

### Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and these remain in force at the date of this report.

### Political donations

No political donations were made by the Company during the year (2014: £nil).

### Financial risk management

The Company has access to the Chief Executive and his executive team (of Thames Water Utilities Limited), who also manage the wider Kemble Water Holdings Limited Group on a day to day basis on behalf of the directors of the individual group companies. They receive regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Company's treasury operations are managed centrally by a small specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors of the Company's ultimate parent company, Kemble Water Holdings Limited.

The operation of the treasury function is governed by policies and procedures that set out guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Company.

### Adoption of future accounting standards

FRS 100, 101 and 102 form the new framework for UK GAAP. FRS 100 sets out the application of financial reporting requirements in the UK and Republic of Ireland and FRS 101 'IFRS with reduced disclosures' outlines the reduced disclosure framework available for use by qualifying entities choosing to report under IFRS. FRS 102 is applicable in the UK and Republic of Ireland and is known as 'new UK GAAP'. The mandatory effective date for the new framework of reporting is for accounting periods beginning on or after 1 January 2015. The Company will apply FRS 101.

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors on 4 June 2015 and signed on its behalf by:

**Sir Peter Mason KBE**

Chairman

Clearwater Court

Vastern Road

Reading

Berkshire

RG1 8DB

## Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## **Independent Auditor's Report to the Members of Thames Water Utilities Holdings Limited**

We have audited the financial statements of Thames Water Utilities Holdings Limited for the year ended 31 March 2015 set out on pages 8 to 18. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**William Meredith (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London E14 5GL

4 June 2015

## Profit and loss account

For the year ended 31 March

	Note	2015 £'m	2014 £'m
Income from fixed asset investment	2	169.9	208.5
Interest payable and similar charges	3	(223.3)	(223.3)
<b>Loss on ordinary activities before taxation</b>		<b>(53.4)</b>	<b>(14.8)</b>
Tax credit on loss on ordinary activities	8	80.3	29.7
<b>Profit for the year</b>	12	<b>26.9</b>	<b>14.9</b>

All of the Company's activities above are derived from continuing activities.

The Company has no recognised gains and losses other than the items set out above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

The accounting policies and notes on pages 10 to 16 are an integral part of these financial statements.



## Balance sheet

As at 31 March

	Note	2015 £'m	2014 £'m
<b>Fixed assets</b>			
Investments	7	4,250.0	4,250.0
<b>Current assets</b>			
Debtors	8	111.1	30.8
Creditors: amounts falling due within one year	9	(220.6)	(167.2)
<b>Net current liabilities</b>		<b>(109.5)</b>	<b>(136.4)</b>
<b>Total assets less current liabilities</b>		<b>4,140.5</b>	<b>4,113.6</b>
Creditors: amounts falling due after more than one year	10	(3,995.1)	(3,995.1)
<b>Net assets</b>		<b>145.4</b>	<b>118.5</b>
<b>Capital and reserves</b>			
Called up share capital	11	-	-
Profit and loss account	12	145.4	118.5
<b>Shareholders' funds</b>	13	<b>145.4</b>	<b>118.5</b>

The accounting policies and notes on pages 10 to 18 are an integral part of these financial statements.

The financial statements on pages 8 to 16 were approved by the board of directors on 4 June 2015 and were signed on its behalf by:

**Sir Peter Mason KBE**  
Chairman

Company registration number 06195202

## Notes to the financial statements

### 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which the Company considered material in relation to the financial statements, except as noted below.

#### Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with applicable accounting standards, and under the historical cost accounting rules.

The Company has exercised the exemption under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as the Company and its subsidiaries are included within the consolidated financial statements of its ultimate parent company Kemble Water Holdings Limited ("the Group"), an entity registered within the United Kingdom. These financial statements present information about the Company as an individual undertaking and not about its group.

There have been no changes to the accounting policies from those used in the preparation of the prior period financial statements.

#### Going concern

The directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net current liabilities of the Company and the requirement for ongoing support from the ultimate parent, Kemble Water Holdings Limited ("KWH"). This is based upon a review of the Group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The Board also took into account potential contingent liabilities and other risk factors.

KWH, the ultimate parent company, has confirmed that it will continue to provide support to Thames Water Utilities Holdings Limited to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements.

#### Summary of significant accounting policies

##### (a) Taxation

###### Current taxation

Current taxation, including UK corporation tax, is based on the taxable loss for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Taxable profit can differ from the loss/profit on ordinary activities before tax as reported in the profit and loss account because it may exclude items of income or expense that are taxable or deductible in other years and it may further exclude items that are never taxable or deductible.

Consideration receivable or payable in respect of losses surrendered or claimed by way of Group Relief is dealt with in the profit and loss account.

## Notes to the financial statements (continued)

### 1 Principal accounting policies (continued)

#### (a) Taxation (continued)

##### *Deferred taxation*

Deferred taxation is recognised, without discounting, in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been substantially enacted by the balance sheet date.

#### (b) Fixed asset investments

Investments in subsidiary undertakings are stated at cost less any provisions for impairment. Reviews for impairment are performed annually.

#### (c) Cash flows

The Company has exercised the exemption under FRS 1 from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

#### (d) Related party disclosures

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, a company registered within the United Kingdom, the Company has taken advantage of the exemption contained within FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

#### (e) Financial risk management

The financial risk management of the Company is discussed in the Directors' Report on page 4.

#### (f) Dividend income

Dividend income is recognised when there is a legal right to receive payment.

#### (g) Securitisation guarantee

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.



## Notes to the financial statements (continued)

### 2 Income from fixed asset investment

The investment income of £169.9m (2014: £208.5m) relates to dividends received from the Company's direct subsidiary, Thames Water Utilities Limited.

### 3 Interest payable and similar charges

	2015 £'m	2014 £'m
<b>On intercompany loans</b>		
Payable to immediate parent undertaking	(198.0)	(198.0)
Payable to direct subsidiary undertaking	(25.3)	(25.3)
<b>Total</b>	<b>(223.3)</b>	<b>(223.3)</b>

### 4 Auditor's remuneration

The auditor's remuneration for the year is £1,804 (borne by Thames Water Limited) (2014: £1,760 borne by Thames Water Limited). No other fees were payable to KPMG LLP in respect of the Company in this year (2014: £nil).

### 5 Staff numbers and costs

The Company has no employees (2014: none).

The current directors receive emoluments in respect of their services as directors of Kemble Water Holdings Limited, the ultimate parent company. No emoluments were paid in respect of their roles as directors of the Company (2014: £nil) and there are no retirement benefits accruing in either year.

Aggregate emoluments for the Group are disclosed in the financial statements of the ultimate parent company.

### 6 Taxation

	2015 £'m	2014 £'m
<b>Current tax</b>		
Amounts receivable in respect of group relief for the year	24.7	38.0
Adjustment in respect of prior years	55.6	(8.3)
<b>Total tax credit</b>	<b>80.3</b>	<b>29.7</b>

The current tax credit for the year is higher (2014: higher) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained overleaf.

## Notes to the financial statements (continued)

### 6 Taxation (continued)

	2015 £'m	2014 £'m
Loss on ordinary activities before taxation	(53.4)	(14.8)
Current tax at 21% (2014: 23%)	11.2	3.4
<i>Effects of:</i>		
Non taxable income (dividend from UK company)	35.7	48.0
Surplus tax losses	(22.2)	(13.4)
Adjustment to tax credit in prior years	55.6	(8.3)
<b>Current tax credit for the year</b>	<b>80.3</b>	<b>29.7</b>

There is an unrecognised deferred tax asset in respect of the surplus losses where the Company does not anticipate taxable profits in the immediate future. The Company has been able to sell as group relief many of its unused prior year tax losses brought forward, on which there was an unprovided deferred tax asset of £122.1m as at 31 March 2014. The Company received a payment of £71.5m from Thames Water Utilities Limited for these, which is included in the prior year tax credit shown above. The Company still has an amount of tax losses which are not expected to be able to be used, on which an unprovided deferred tax asset of £43.1m arises.

A reduction in the UK corporation tax rate from 21% to 20%, effective from 1 April 2015, was substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The unrecognised deferred tax asset at 31 March 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

The amount of deferred tax not recognised is

	2015 £'m	2014 £'m
Unrecognised deferred tax asset	43.1	122.1

## Notes to the financial statements (continued)

### 7 Investments

	2015 £'m	2014 £'m
Cost of shares in subsidiary undertakings	4,250.0	4,250.0

In the opinion of the directors, the value of the investments in the subsidiary company is not less than the amount included in the balance sheet. At 31 March 2015, the Company held the following interests:

	Nominal value and class of shares	Percentage of shares held	Principal activity	Country of incorporation
Thames Water Utilities Limited Indirect (through Thames Water Utilities Limited)	£1 Ordinary	100%	Water and waste water company	United Kingdom
Thames Water Utilities Finance Limited	£1 Ordinary	100%	Financing company	United Kingdom
Thames Water Utilities Cayman Finance Limited	\$1 Ordinary	100%	Financing Company	Cayman Islands*

\* Thames Water Utilities Cayman Finance Limited is registered in the UK for tax purposes

In accordance with section 410 of the Companies Act 2006, information is given only with respect to such undertakings whose financial position principally affect the figures of the Company. A full list of subsidiary undertakings will be filed at Companies House with the Company's annual return.

### 8 Debtors

	2015 £'m	2014 £'m
Group relief debtor	39.6	30.8
Receivable from direct subsidiary undertaking	71.5	-
Total	111.1	30.8

Amounts receivable from direct subsidiary undertaking relates to a non-cash settlement from TWUL in the year which arose due to an election made by TWUL to disclaim capital allowances relating to previous years.

### 9 Creditors: amounts falling due within one year

	2015 £'m	2014 £'m
Payable to immediate parent undertaking	195.3	142.3
Payable to direct subsidiary undertaking	25.3	24.9
Total	220.6	167.2

## Notes to the financial statements (continued)

### 10 Creditors: amounts falling due after more than one year

	2015 £'m	2014 £'m
Intercompany loans	3,995.1	3,995.1

Amounts owed to group undertakings include the following unsecured loans:

- £1,980.1m (2014: £1,980.1m) owed to Thames Water Limited, the immediate parent company, being the unpaid deferred consideration on the purchase of Thames Water Utilities Limited, on which interest is payable at 10% (2014: 10%). Repayment is at the discretion of the Company but must be repaid by 2056. Interest repayment on this loan is determined by agreement between both parties.
- £2,015.0m (2014: £2,015.0m) owed to Thames Water Utilities Limited, the direct subsidiary company, on which interest is based on LIBOR + 0.35% (2014: LIBOR + 0.35%). The loan is repayable by 21 August 2037.

### 11 Called up share capital

	2015 £	2014 £
Allotted, called up and fully paid 2 ordinary shares of £1 each	2	2

### 12 Profit and loss account

	2015 £'m	2014 £'m
At 1 April	118.5	103.6
(Loss)/profit for the year	26.9	14.9
At 31 March	145.4	118.5

### 13 Reconciliation of movements in shareholder's funds

	2015 £'m	2014 £'m
At 1 April	118.5	103.6
(Loss)/profit for the year	26.9	14.9
At 31 March	145.4	118.5



## Notes to the financial statements (continued)

### 14 Guarantees

The Company, Thames Water Utilities Limited, Thames Water Utilities Finance Limited, Thames Water Utilities Cayman Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2015 was £10.2bn (2014: £9.8bn).

### 15 Immediate and ultimate parent companies and controlling party

The immediate parent company is Thames Water Limited, which owns 100% of the share capital and is a company incorporated in the United Kingdom.

Kemble Water Finance Limited, a company incorporated in the United Kingdom, is the smallest group to consolidate these financial statements.

The ultimate parent company and controlling party is Kemble Water Holdings Limited, a company incorporated in the United Kingdom and the largest group to consolidate these financial statements.

Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office, Thames Water Group, Cleanwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.



Registered no: MC-196364 (Cayman Islands)

**Thames Water Utilities Cayman Finance Holdings Limited**

Directors' report and financial statements

For the year ended 31 March 2014

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Strategic report, Directors' report and financial statements for the year ended 31 March 2014**

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## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Directors and advisors**

#### **Directors**

A Beaumont  
S Ledger  
P Kerr (appointed 8 September 2013)

#### **Registered auditor**

KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

#### **Company secretary & registered office**

J E Hanson  
M&C Corporate Services Limited  
PO Box 308GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands

# Thames Water Utilities Cayman Finance Holdings Limited

## Strategic report

The directors present their strategic report for Thames Water Utilities Cayman Finance Holdings Limited ("the Company") for the year ended 31 March 2014.

### Review of the business and future outlook

The Company was established as a holding Company of Thames Water Utilities Cayman Finance Limited and is expected to continue as a holding company of Thames Water Utilities Cayman Finance Limited for the foreseeable future.

The Company is part of a securitisation group of companies comprising Thames Water Utilities Limited ("TWUL"), Thames Water Utilities Holdings Limited, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Limited ("the securitisation group"). The payment of all amounts owing in respect of the external debt issued by any Company in the securitisation group is unconditionally and irrevocably guaranteed by all companies within the securitisation group.

#### Thames Tideway Tunnel – changes to financial covenants regarding the securitisation group

Given the size and scale of the Thames Tideway Tunnel and its importance to UK infrastructure, TWUL has been in dialogue with Defra, Ofwat and HM Treasury as to the preferred way to deliver the Thames Tideway Tunnel Project (the "TTT Project"). TWUL, Defra, Ofwat and HM Treasury have together developed a proposal whereby the TTT Project is delivered by an independent infrastructure provider (the "IP"). Such infrastructure providers were specifically introduced by recent legislation to deliver projects that: (i) are of such a size and complexity that they threaten the incumbent undertaker's ability to provide services for its customers, and; (ii) where "specifying" the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project was not specified. Projects meeting these criteria can be specified as such by Ofwat or the Secretary of State.

The IP will not be owned by TWUL but will instead be an independent entity with its own licence and separately regulated by Ofwat. The IP will also be responsible for raising its own capital. The IP will by law and by regulation be required to design, construct, finance, operate and maintain the Thames Tideway Tunnel as specified.

TWUL will collect additional revenues from customers which it will pass to the IP and its licence will be amended to include the ability and obligation to collect such additional revenues. Importantly, TWUL will only be required to pass such revenues to the IP on a "pay when paid" basis i.e. TWUL will only be required to pass to the IP the relevant proportion of its revenues (commensurate with the proportion of the IP charges to TWUL's total wastewater charges) when it has collected them. In addition to the collection of revenues, TWUL will be involved in the procurement of the IP, ensuring that the Thames Tideway Tunnel connects correctly to TWUL's existing sewer network and the completion of the certain preparatory works.

TWUL has received accounting advice that, as a result of the delivery model for the TTT Project, the financial ratios will no longer operate as originally intended during the construction and operation phase (the "Accounting Effect"). This unintended accounting consequence of the delivery of the Thames Tideway Tunnel could not have been envisaged at the time TWUL's financing agreements were put in place in 2007.

The Accounting Effect in broad terms means that, during construction phase of the TTT, TWUL's cash interest cover ratios would benefit from an increase in revenues without a corresponding increase in debt service obligations whilst conversely, during operational phase (the earliest date for which will be in 2024) of the Thames Tideway Tunnel, certain of TWUL's leverage ratios would be affected by an increased "finance lease liability" without any additional asset RCV being attributed to TWUL.

The board of TWUL does not anticipate that the credit quality of Thames Water should be materially affected by the implementation of the TTT Project through the IP delivery and as such TWUL sought the approval of secured creditors to change the terms of certain finance documents to neutralise the impact of the Accounting Effect on its financial covenants.



## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Strategic report (continued)**

TWUL issued an announcement to the London Stock Exchange on 22 April 2014 launching the consent solicitation process. Bondholder meetings took place on 15 May 2014 and the proposal was passed on 16 May 2014 by a vote from a total of c.88% of all relevant secured creditors. Further to this consent, the proposed changes will be implemented on satisfaction of further specific conditions which are: the issue of the TTT Project Specification Notice, and; the affirmation of credit ratings at specific levels as set out in relevant finance documents.

It is not anticipated that the Company will trade in the future.

### **Results and performance**

The Company has not traded during the current or preceding years, has received no income and incurred no expenditure, and subsequently made neither a profit nor loss in either year. The directors do not recommend the payment of a final dividend (2013: £nil).

### **Principal risks and uncertainties**

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the securitisation group and are not managed separately. The principal risks of the securitisation group are largely similar to those disclosed in the financial statements of the ultimate controlling parent Kemble Water Holdings (KWH) Group Limited. Accordingly, the principal risks and uncertainties of the group, which include those of the Company, are discussed in the Group's Annual Report which does not form part of this report. The Group's annual report is available from the address shown on page 12.

### **Key performance indicators**

The Company's activities are monitored in line with the performance of the securitisation group. It does not have any financial covenants calculated on its financial statements but inter-company proceeds of the subsidiary, Thames Water Utilities Cayman Finance Limited, on-lent to Thames Water Utilities Limited are included in gearing (net debt as a percentage of regulated asset value) and interest cover covenant ratios. The key performance indicators of the securitisation group are discussed in greater detail in the annual report and accounts of the main trading subsidiary, TWUL and the annual report and accounts of the ultimate controlling company, KWH Group available from the address shown on page 12.

By order of the Board:

**Paul Kerr**  
**Director**

Clearwater Court  
Vastern Road  
Reading  
Berkshire RG1 8DB

5 June 2014

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Directors' report**

The directors present their report and the audited financial statements of Thames Water Utilities Cayman Finance Holdings Limited ("the Company") for the year ended 31 March 2014.

The Company is registered in the Cayman Islands and its operations are conducted entirely within the UK. The purpose of these financial statements is to enable the Company to comply with its obligations in respect of the whole business securitisation. There is no statutory obligation for the directors to prepare financial statements under Cayman Island statutes. Accordingly, the financial statements have been prepared on the going concern basis, under the historical cost convention, as if UK Generally Accepted Accounting Practice ("UK GAAP") and UK Companies legislation were applicable.

The registered company number is MC-196364 (Cayman Islands).

### **Future outlook**

The future outlook of the Company is discussed in the strategic report.

### **Dividends**

The directors did not pay any dividends in the year (2013: £nil) and do not recommend the payment of a final dividend (2013: £nil).

### **Directors' indemnity provisions**

The Company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and these remain in force at the date of this report.

### **Directors**

The directors who held office during the year ended 31 March 2014 and to the date of signing were:

A Beaumont  
S Ledger  
P Kerr (appointed 8 September 2013)

During the year under review, none of the directors had any contracts with the Company or any other body corporate other than their contracts and service.

### **Donations**

No political donations were made by the company during the year (2013: £nil).

### **Financial risk management**

The Company has access to the Chief Executive and his executive team (of Thames Water Utilities Limited), who also manage the wider Kemble Water Holding Group on a day to day basis on behalf of the Directors of the individual group companies. They receive regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Company's treasury operations are managed centrally by a specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors of the Company's ultimate parent company, Kemble Water Holdings Limited.

The operation of the treasury function is governed by policies and procedures that set out specific guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Company.

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Directors' report (continued)**

#### **Disclosure of information to the auditor**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **Auditor**

Our auditor, KPMG Audit Plc, informed the directors that for administrative reasons and to instigate the orderly wind down of the business, they wished to formally change the entity which conducts the Thames Water Utilities Cayman Finance Holdings Limited audit from KPMG Audit Plc to KPMG LLP.

KPMG Audit Plc resigned as auditor on 30 October 2013 pursuant to section 516 of the Companies Act 2008 and KPMG LLP was appointed as auditor of the Company under section 485 of the Companies Act 2008.

Approved by the Board of Directors on 5 June 2014 and signed on its behalf by:

**Paul Kerr**  
**Director**

Cleanwater Court  
Vastem Road  
Reading  
Berkshire RG1 8DB

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements**

The directors of Thames Water Utilities Cayman Finance Holdings Limited ('the directors') have accepted responsibility for the preparation of these financial statements for the year ended 31 March 2014 which are intended by them to give a true and fair view of the state of affairs of the company and of the profit or loss for that period. They have decided to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with UK Generally Accepted Accounting Practice;
- prepared the financial statements on the going concern basis as they believe that the company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## **Independent auditor's report to Thames Water Utilities Cayman Finance Holdings Limited**

We have audited the non-statutory accounts of Thames Water Utilities Cayman Holdings Finance Limited for the year ended 31 March 2014 set out on pages 8 to 12. These non-statutory accounts have been prepared for the reasons set out in note 1 to the non-statutory accounts and on the basis of the financial reporting framework of UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

Our report has been prepared for the Company solely in connection with the terms of our engagement. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 9 December 2013 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the non-statutory accounts**

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory accounts sufficient to give reasonable assurance that the non-statutory accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the entity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory accounts.

### **Opinion on non-statutory accounts**

In our opinion the non-statutory accounts:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006, as if those requirements were to apply.

**KPMG LLP**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

5 June 2014

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Profit and loss account for the year ended 31 March 2014**

During the financial year and the prior financial year the company did not trade, received no income and incurred no expenditure. Consequently, during those years the company made neither a profit and nor a loss. Therefore no Profit and loss account has been presented.

The Company has no recognised gains and losses and therefore no separate Statement of total recognised gains and losses has been presented.

The notes on pages 10 to 12 form part of these financial statements.

## Thames Water Utilities Cayman Finance Holdings Limited

### Balance sheet

	Note	As at 31 March 2014 £	As at 31 March 2013 £
<b>Fixed assets</b>			
Investments	4	1	1
<b>Net assets</b>		<b>1</b>	<b>1</b>
<b>Capital and reserves</b>			
Called-up share capital	5	1	1
<b>Shareholder's funds</b>	6	<b>1</b>	<b>1</b>

The notes on pages 10 to 12 form part of these financial statements.

The financial statements on pages 8 to 12 were approved by the Board of Directors on 5 June 2014 and were signed on its behalf by:

**P Kerr**  
Director

Company registration number: MC-198384

# Thames Water Utilities Cayman Finance Holdings Limited

## Notes to the financial statements

### 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items, which the Company considered material in relation to the financial statements, except as noted below.

#### Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with applicable accounting standards, and under historical cost accounting rules.

The Company is registered in the Cayman Islands and its operations are conducted entirely within the UK. The purpose of these financial statements is to enable the Company to comply with its obligations in respect of the whole business securitisation. Accordingly, the financial statements have been prepared on the going concern basis, under the historical cost convention, in accordance with UK GAAP and as if UK Companies legislation was applicable.

#### Going concern

The financial statements have been prepared on the going concern basis. This is based upon a review of the Company's budget, the Group's budget and strategic plan, together with the cash and committed borrowing facilities available to both the Company and the Group.

The Company has not prepared consolidated Group financial statements. The Company and its subsidiaries are included in the consolidated financial statements of its ultimate parent company Kemble Water Holdings Limited, a company registered in the United Kingdom.

#### Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements, which have been applied consistently are set out below.

#### (a) Investments

Investments held as fixed assets are stated at cost less provisions for impairment in value.

#### (b) Related party disclosures

As the Company is a wholly owned subsidiary of Thames Water Utilities Limited ("TWUL"), and prepares accounts under UK GAAP, the Company has taken advantage of the exemption contained in Financial Reporting Standard ("FRS") 8 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of Kemble Water Holdings Limited, within which this Company is included can be obtained from the address in note 7.

#### (c) Cash flow

As the Company voluntarily prepares accounts under UK GAAP, it is exempt under FRS1 from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published financial statements.

### 2 Auditor's remuneration

The auditor's remuneration of £3,463 (2013: £3,375) has been borne by Thames Water Limited (2013: borne by Thames Water Limited). No other fees were payable to KPMG LLP in respect of this year (2013: £nil).

### 3 Staff numbers and costs

The Company has no employees (2013: none).

No director received any remuneration in respect of their services to the Company in either year.



# Thames Water Utilities Cayman Finance Holdings Limited

## Notes to the financial statements (continued)

### 4 Investments

	Interests in Group undertaking £
<b>Cost at 31 March 2014 and 1 April 2013</b>	<b>1</b>

In the opinion of the directors, the value of the investments in the subsidiary Company is not less than the amount included in the balance sheet.

#### Interests in Group undertaking

	Year end	% owner- ship	Country of incorporation	Description of shares held	Nature of business
<b>Direct:</b>					
Thames Water Utilities Cayman Finance Limited	31 March	100	Cayman Islands	Ordinary KYD\$1	Financing company

### 5 Share capital

	As at 31 March 2014 £	As at 31 March 2013 £
<b>Allotted, called-up and fully paid</b>		
1 ordinary shares of KYD\$1 each	1	1

### 6 Reconciliation of movements in shareholder's funds

	Share capital £	Total £
<b>At 31 March 2014 and 1 April 2013</b>	<b>1</b>	<b>1</b>

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Notes to the financial statements (continued)**

#### **7 Immediate and ultimate parent Company and controlling party**

The immediate parent undertaking is Thames Water Utilities Limited ("TWUL"), a Company incorporated in the United Kingdom.

Kemble Water Finance Limited, a Company incorporated in the United Kingdom, is an intermediate parent Company and the smallest group to consolidate these financial statements.

The directors consider Kemble Water Holdings Limited, a Company incorporated in the United Kingdom, to be the ultimate parent Company and controlling party and the largest group to consolidate these financial statements.

Copies of the financial statements of all of the above companies may be obtained from The Company Secretarial Department, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

#### **8. Post balance sheet events**

On 22 April 2014 TWUL issued an announcement to the London Stock Exchange launching the consent solicitation process to seek the approval of secured creditors to change the terms of certain finance documents. Bondholder meetings took place on 15 May and the proposal was passed on 16 May. Further to this consent, the proposed changes will be implemented on satisfaction of further specific conditions which are the issue of the TTT Project Specification Notice and the affirmation of credit ratings at specific levels as set out in relevant finance documents.

Whilst these changes are considered important to the securitisation group, there is no immediate financial effect.

Registered no: MC-196364 (Cayman Islands)

**Thames Water Utilities Cayman Finance Holdings Limited**

Annual report and financial statements

For the year ended 31 March 2015

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Strategic report, Directors' report and financial statements for the year ended 31 March 2015**

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## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Directors and advisors**

#### **Directors**

A Beaumont  
S Ledger  
P Kerr

#### **Registered auditor**

KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

#### **Company secretary & registered office**

D Hughes  
M&C Corporate Services Limited  
PO Box 309GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands

# Thames Water Utilities Cayman Finance Holdings Limited

## Strategic report

The directors present their strategic report for Thames Water Utilities Cayman Finance Holdings Limited ("the Company") for the year ended 31 March 2015.

### Review of the business and future outlook

The Company was established as a holding company of Thames Water Utilities Cayman Finance Limited and is expected to continue as a holding company of Thames Water Utilities Cayman Finance Limited for the foreseeable future.

The Company is part of a securitisation group of companies comprising Thames Water Utilities Limited ("TWUL"), Thames Water Utilities Holdings Limited, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Limited ("the securitisation group"). The payment of all amounts owing in respect of the external debt issued by any company in the securitisation group is unconditionally and irrevocably guaranteed by all companies within the securitisation group.

It is not anticipated that the Company will trade in the future.

A Corporate Family Rating ("CFR") is assigned by Moody's and reflects the consolidated rating of the different classes of outstanding debt obligations issued by the Thames Water Utilities Cayman Finance, Thames Water Utilities Finance Limited and TWUL. TWUL's licence requires an investment grade credit rating of at least Baa3 from Moody's or BBB- from Standard & Poor's ("S&P") to be maintained, as this ensures that TWUL can access the debt funding that is needed to support the delivery of the investment programme in an efficient and cost effective manner.

On 27 February 2015, Moody's affirmed the CFR at Baa1 with a stable outlook. With regards to risk associated with the Thames Tideway Tunnel ("TTT"), Moody's stated, "Moody's also believes that key uncertainties resulting in incremental risks that TWUL is exposed to in relation to the TTT project are adequately mitigated through a specific mechanism for an interim price review in certain circumstances outside of management's control." Additionally, Moody's issued revised guidance that TWUL should maintain leverage of around 80% or under and adjusted interest cover at around 1.3x or over.

In September 2014 S&P moved the A- (Class A) and BBB (Class B) credit ratings of the Company to negative outlook, at this time S&P were focussed on limited headroom in financial ratios and risks in relation to operational and customer service performance. S&P has not issued an updated credit opinion subsequent to the Final Determination.

### Gearing and interest cover

On 24 March 2015 TWUL launched a proposal to introduce a new conformed interest cover covenant to reflect recent changes to the regulatory framework. This proposal successfully passed on 10 April 2015. In the original "Adjusted ICR" covenants, Current Cost Depreciation ("CCD") and Infrastructure Renewals Charge ("IRC") - which are a regulatory proxy for capital maintenance - are subtracted from net cash flow in order to make this calculation. From 1 April 2015, Ofwat ceased to publish CCD and IRC effectively rendering the covenants not fit for purpose as there would be no adjustment to cash to reflect the amounts which TWUL is required to spend on maintenance. To address this, a new covenant has been introduced to take account of required maintenance spend by TWUL using the relevant new regulatory building blocks. This is consistent with the affirmation of our credit rating by Moody's on 27 February 2015.

### Results and performance

The Company has not traded during the current or preceding years, has received no income and incurred no expenditure, and subsequently made neither a profit nor loss in either year. The directors do not recommend the payment of a final dividend (2014: £nil).

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Strategic report (continued)**

#### **Principal risks and uncertainties**

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the securitisation group and are not managed separately. The principal risks of the securitisation group are largely similar to those disclosed in the financial statements of the ultimate controlling parent Kemble Water Holdings Limited ("KWH") or ("the Group"). Accordingly, the principal risks and uncertainties of the group, which include those of the Company, are discussed in the Group's Annual Report which does not form part of this report. The Group's annual report is available from the address shown on page 12.

#### **Key performance indicators**

The Company's activities are monitored in line with the performance of the securitisation group. It does not have any financial covenants calculated on its financial statements but inter-company proceeds of the subsidiary, Thames Water Utilities Cayman Finance Limited, on-lent to Thames Water Utilities Limited are included in gearing (net debt as a percentage of regulatory capital value) and interest cover covenant ratios. The key performance indicators of the securitisation group are discussed in greater detail in the annual report and accounts of the main trading subsidiary, TWUL, and the annual report and accounts of the ultimate controlling company, KWH Group which are available from the address shown on page 12.

By order of the Board:

**S Ledger**  
**Director**

Cleanwater Court  
Vastern Road  
Reading  
Berkshire RG1 8DB

4 June 2015



## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Directors' report**

The directors present their report and the audited financial statements of Thames Water Utilities Cayman Finance Holdings Limited for the year ended 31 March 2015.

The Company is registered in the Cayman Islands and its operations are conducted entirely within the UK. The purpose of these financial statements is to enable the Company to comply with its obligations in respect of the whole business securitisation. There is no statutory obligation for the directors to prepare financial statements under Cayman Island statutes. Accordingly, the financial statements have been prepared on the going concern basis, under the historical cost convention, as if UK Generally Accepted Accounting Practice ("UK GAAP") and UK Companies legislation were applicable.

The registered company number is MC-196364 (Cayman Islands).

### **Future outlook**

The future outlook of the Company is discussed in the strategic report.

### **Dividends**

The directors did not pay any dividends in the year (2014: £nil) and do not recommend the payment of a final dividend (2014: £nil).

### **Directors' indemnity provisions**

The Company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and these remain in force at the date of this report.

### **Directors**

The directors who held office during the year ended 31 March 2015 and to the date of signing were:

A Beaumont  
S Ledger  
P Kerr

During the year under review, none of the directors had any contracts with the Company or any other body corporate other than their contracts of service.

### **Donations**

No political donations were made by the company during the year (2014: £nil).

### **Financial risk management**

The Company has access to the Chief Executive and his executive team (of Thames Water Utilities Limited), who also manage the wider Kemble Water Holding Group on a day to day basis on behalf of the directors of the individual group companies. They receive regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Company's treasury operations are managed centrally by a specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors of the Company's ultimate parent company, Kemble Water Holdings Limited.

The operation of the treasury function is governed by policies and procedures that set out specific guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Company.

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Directors' report (continued)**

#### **Adoption of future accounting standards**

FRS 100, 101 and 102 form the new framework for UK GAAP. FRS 100 sets out the application of financial reporting requirements in the UK and Republic of Ireland and FRS 101 'IFRS with reduced disclosures' outlines the reduced disclosure framework available for use by qualifying entities choosing to report under IFRS. FRS 102 is applicable in the UK and Republic of Ireland and is known as 'new UK GAAP'. The mandatory effective date for the new framework of reporting is for accounting periods beginning on or after 1 January 2015. The Company will apply FRS 101.

#### **Disclosure of information to the auditor**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors on 4 June 2015 and signed on its behalf by:

**S Ledger**  
**Director**

Cleanwater Court  
Vastern Road  
Reading  
Berkshire RG1 8DB

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements**

The directors of Thames Water Utilities Cayman Finance Holdings Limited ('the directors') have accepted responsibility for the preparation of non-statutory accounts for the year ended 31 March 2015 which are intended by them to give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. They have decided to prepare the non-statutory accounts in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

In preparing these non-statutory accounts, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable UK Accounting Standards have been followed; subject to any material departures being disclosed and explained in the non-statutory accounts; and
- prepared the non-statutory accounts on the going concern basis as they believe that the Company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## **Independent auditor's report to Thames Water Utilities Cayman Finance Holdings Limited**

We have audited the non-statutory accounts of Thames Water Utilities Cayman Holdings Finance Limited for the year ended 31 March 2015 set out on pages 8 to 12. These non-statutory accounts have been prepared for the reasons set out in note 1 to the non-statutory accounts and on the basis of the financial reporting framework of UK Accounting Standards (UK Generally Accepted Accounting Practice) and as if applicable UK law applied to them.

Our report has been prepared for the Company solely in connection with the terms of our engagement. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 9 April 2015 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the non-statutory accounts**

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory accounts sufficient to give reasonable assurance that the non-statutory accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the entity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory accounts.

### **Opinion on non-statutory accounts**

In our opinion the non-statutory accounts:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006, as if those requirements were to apply.

**KPMG LLP**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

4 June 2015

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Profit and loss account**

During the financial year and the prior financial year the Company did not trade, received no income and incurred no expenditure. Consequently, during those years the Company made neither a profit and nor a loss. Therefore no Profit and loss account has been presented.

The Company has no recognised gains and losses and therefore no separate Statement of total recognised gains and losses has been presented.

The notes on pages 10 to 12 form part of these financial statements.



## Thames Water Utilities Cayman Finance Holdings Limited

### Balance sheet

	Note	As at 31 March 2015 £	As at 31 March 2014 £
<b>Fixed assets</b>			
Investments	4	1	1
<b>Net assets</b>		<b>1</b>	<b>1</b>
<b>Capital and reserves</b>			
Called-up share capital	5	1	1
<b>Shareholder's funds</b>	6	<b>1</b>	<b>1</b>

The notes on pages 10 to 12 form part of these financial statements.

The financial statements on pages 8 to 12 were approved by the Board of Directors on 4 June 2015 and were signed on its behalf by:

**S Ledger**  
Director

Company registration number: MC-198384 (Cayman Islands)

# Thames Water Utilities Cayman Finance Holdings Limited

## Notes to the financial statements

### 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items, which the Company considered material in relation to the financial statements, except as noted below.

#### Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with applicable accounting standards, and under historical cost accounting rules.

The Company is registered in the Cayman Islands and its operations are conducted entirely within the UK. The purpose of these financial statements is to enable the Company to comply with its obligations in respect of the whole business securitisation. Accordingly, the financial statements have been prepared on the going concern basis, under the historical cost convention, in accordance with UK Generally Accepted Accounting Practice and as if UK Companies legislation was applicable.

The Company has not prepared consolidated Group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group. The Company and its subsidiaries are included in the consolidated financial statements of its ultimate parent company Kemble Water Holdings Limited, a company registered in the United Kingdom.

#### Going concern

The financial statements have been prepared on the going concern basis. This is based upon a review of the Company's budget, the Group's budget and strategic plan, together with the cash and committed borrowing facilities available to both the Company and the Group.

#### Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements, which have been applied consistently are set out below.

#### (a) Investments

Investments held as fixed assets are stated at cost less provisions for impairment in value.

#### (b) Related party disclosures

As the Company is a wholly owned subsidiary of Thames Water Utilities Limited ("TWUL"), and prepares accounts under UK GAAP, the Company has taken advantage of the exemption contained in Financial Reporting Standard ("FRS") 8 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of Kemble Water Holdings Limited, within which this Company is included can be obtained from the address in note 8.

#### (c) Cash flow

As the Company voluntarily prepares accounts under UK GAAP, it is exempt under FRS1 from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published financial statements.

#### (d) Securitisation guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the securitisation group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

## Thames Water Utilities Cayman Finance Holdings Limited

### Notes to the financial statements (continued)

#### 2 Auditor's remuneration

The auditor's remuneration of £3,550 (2014: £3,463) has been borne by Thames Water Limited (2014: borne by Thames Water Limited). No other fees were payable to KPMG LLP in respect of this year (2014: £nil).

#### 3 Staff numbers and costs

The Company has no employees (2014: none).

No director received any remuneration in respect of their services to the Company in either year.

#### 4 Investments

	Interests in Group undertaking £
<b>Cost at 31 March 2015 and 1 April 2014</b>	<b>1</b>

In the opinion of the directors, the value of the investments in the subsidiary Company is not less than the amount included in the balance sheet.

##### Interests in Group undertaking

	Year end	% owner- ship	Country of incorporation	Description of shares held	Nature of business
<b>Direct:</b>					
Thames Water Utilities Cayman Finance Limited	31 March	100	Cayman Islands	Ordinary KYD\$1	Financing company

#### 5 Share capital

	As at 31 March 2015 £	As at 31 March 2014 £
<b>Allotted, called-up and fully paid</b>		
1 ordinary shares of KYD\$1 each	1	1

#### 6 Reconciliation of movements in shareholder's funds

	Share capital £	Total £
<b>At 31 March 2015 and 1 April 2014</b>	<b>1</b>	<b>1</b>

## **Thames Water Utilities Cayman Finance Holdings Limited**

### **Notes to the financial statements (continued)**

#### **7 Guarantees**

The Company, Thames Water Utilities Holdings Limited, Thames Water Utilities Limited, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Limited are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2015 was £10.2bn (2014: £9.8bn).

#### **8 Immediate and ultimate parent company and controlling party**

The immediate parent undertaking is Thames Water Utilities Limited ("TWUL"), a Company incorporated in the United Kingdom.

Kemble Water Finance Limited, a Company incorporated in the United Kingdom, is an intermediate parent Company and the smallest group to consolidate these financial statements.

The directors consider Kemble Water Holdings Limited, a company incorporated in the United Kingdom, to be the ultimate parent company and controlling party and the largest group to consolidate these financial statements.

Copies of the financial statements of all of the above companies may be obtained from The Company Secretarial Department, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Registered no: MC-187772 (Cayman Islands)

**Thames Water Utilities Cayman Finance Limited**

Directors' report and financial statements

For the year ended 31 March 2014

## **Thames Water Utilities Cayman Finance Limited**

### **Strategic report, Directors' report and financial statements for the year ended 31 March 2014**

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## **Thames Water Utilities Cayman Finance Limited**

### **Directors and advisors**

#### **Directors**

A Beaumont  
S Ledger  
P Kerr (appointed 8 September 2013)

#### **Registered auditor**

KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

#### **Company secretary & registered office**

J E Hansar  
M&C Corporate Services Limited  
PO Box 309GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands

## Thames Water Utilities Cayman Finance Limited

### Strategic report

The directors present their strategic report for Thames Water Utilities Cayman Finance Limited ("the Company") for the year ended 31 March 2014.

#### Review of the business and strategy

The Company was established in 2007 as part of the implementation of the Whole Business Securitisation of the Kemble Water Holdings Group ("the Group" or "the KWH Group"). The Company makes certain financing arrangements on behalf of the main trading subsidiary within the Group, Thames Water Utilities Limited ("TWUL"). On 30 August 2007, the company entered into a multicurrency programme for the issuance of up to £10bn Guaranteed Wrapped Bonds (Wrapped Bonds meaning bonds that have the benefit of a financial guarantee) and Guaranteed Unwrapped Bonds. At 31 March 2014, £4.3bn of bonds (31 March 2013: £4.3bn) have been issued under this programme.

The major transactions of the Company are the raising of finance and subsequent lending of the debt to TWUL. The Company manages the market risks associated with raising debt and ultimately passes on the proceeds to TWUL. A margin of 10 basis points is charged on the bonds that are lent on to TWUL commensurate with the underlying market risks the Company manages on TWUL's behalf. This business model is expected to continue for the foreseeable future.

The Company is part of a securitisation group of companies which comprises, Thames Water Utilities Limited, Thames Water Utilities Holdings Limited, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited ("the securitisation group"). The payment of all amounts owing in respect of the external debt issued by the Company is unconditionally and irrevocably guaranteed by all companies within the securitisation group.

#### Thames Tideway Tunnel – changes to financial covenants regarding the securitisation group

Given the size and scale of the Thames Tideway Tunnel and its importance to UK infrastructure, TWUL has been in dialogue with Defra, Ofwat and HM Treasury as to the preferred way to deliver the Thames Tideway Tunnel Project (the "TTT Project"). TWUL, Defra, Ofwat and HM Treasury have together developed a proposal whereby the TTT Project is delivered by an independent infrastructure provider (the "IP"). Such infrastructure providers were specifically introduced by recent legislation to deliver projects that: (i) are of such a size and complexity that they threaten the incumbent undertaker's ability to provide services for its customers; and, (ii) where "specifying" the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project was not specified. Projects meeting these criteria can be specified as such by Ofwat or the Secretary of State.

The IP will not be owned by TWUL but will instead be an independent entity with its own licence and separately regulated by Ofwat. The IP will also be responsible for raising its own capital. The IP will by law and by regulation be required to design, construct, finance, operate and maintain the Thames Tideway Tunnel as specified.

TWUL will collect additional revenues from customers which it will pass to the IP and its licence will be amended to include the ability and obligation to collect such additional revenues. Importantly, TWUL will only be required to pass such revenues to the IP on a 'pay when paid' basis i.e. TWUL will only be required to pass to the IP the relevant proportion of its revenues (commensurate with the proportion of the IP charges to TWUL's total wastewater charges) when it has collected them. In addition to the collection of revenues, TWUL will be involved in the procurement of the IP, ensuring that the Thames Tideway Tunnel connects correctly to TWUL's existing sewer network and the completion of the certain preparatory works.

TWUL has received accounting advice that, as a result of the delivery model for the TTT Project, the financial ratios will no longer operate as originally intended during the construction and operation phase (the "Accounting Effect"). This unintended accounting consequence of the delivery of the Thames Tideway Tunnel could not have been envisaged at the time TWUL's financing agreements were put in place in 2007.

The Accounting Effect in broad terms means that, during construction phase of the TTT, TWUL's cash interest cover ratios would benefit from an increase in revenues without a corresponding increase in debt service obligations whilst conversely, during operational phase (the earliest date for which will be in 2024) of the Thames Tideway Tunnel, certain of TWUL's leverage ratios would be affected by an increased 'finance lease liability' without any additional asset RCV being attributed to TWUL.



## Thames Water Utilities Cayman Finance Limited

### Strategic report (continued)

The board of TWUL does not anticipate that the credit quality of Thames Water should be materially affected by the implementation of the TTT Project through the IP delivery and as such TWUL sought the approval of secured creditors to change the terms of certain finance documents to neutralise the impact of the Accounting Effect on its financial covenants.

TWUL issued an announcement to the London Stock Exchange on 22 April 2014 launching the consent solicitation process. Bondholder meetings took place on 15 May 2014 and the proposal was passed on 16 May 2014 by a vote from a total of c.88% of all relevant secured creditors. Further to this consent, the proposed changes will be implemented on satisfaction of further specific conditions which are: the issue of the TTT Project Specification Notice, and; the affirmation of credit ratings at specific levels as set out in relevant finance documents.

### Results and performance

For the financial year ended 31 March 2014, the Company made a profit before tax of £83.4m (2013: loss of £85.7m, restated, see note 7(a)). The profit is due to positive movements in the derivative fair values which are marked to market through the income statement and foreign exchange gains on the foreign currency denominated debt instruments. The Company manages market risks associated with financing activities by using derivative financial instruments and the Company does not pass on the year on year movement in derivative fair values to TWUL because this is a timing difference only and the Company holds the derivatives to match underlying debt obligations which are held to maturity.

The Company does not apply hedge accounting. Therefore foreign exchange revaluations of the foreign currency debt instruments are disclosed within finance income in the notes to the income statement. All derivatives are classed as fair value through profit and loss financial instruments.

The Company has not issued or repaid any debt during the financial year ended 31 March 2014 (2013: £587.6m issued and £430.9m repaid). TWUL was able to satisfy its funding requirements during the year from other external sources, therefore the Company has not issued any new debt in the year.

### Principal risks and uncertainties

The Company is a financing subsidiary of TWUL resident in the UK for tax purposes. Accordingly all financing transactions and obligations are passed on to TWUL by way of inter-company loans. Risk management relating to the financing obligations of TWUL is managed as part of the overall financial risk management strategy of the securitisation group.

From the perspective of the Company, the principal risks and uncertainties are integrated within the principal risks of the securitisation group and are not therefore managed separately. The principal risks of the securitisation group are largely similar to those disclosed in the consolidated financial statements of the ultimate controlling parent, Kemble Water Holdings Limited ("KWH"). Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's Annual Report which does not form part of this report. The Group's annual report is available from the address shown on page 30.

### Key performance indicators

The Company's activities are monitored in line with the performance of the securitisation group. It does not have any financial covenants calculated on its financial statements but inter-company proceeds on-lent to TWUL are included in gearing (net debt as a percentage of regulated asset value) and interest cover covenant ratios of TWUL. The key performance indicators of the securitisation group are discussed in greater detail in the annual report and accounts of the main trading subsidiary, TWUL and the annual report and consolidated accounts of the ultimate controlling company, KWH, both of which are available from the address shown on page 30. TWUL's financial statements are also available online at [www.thameswater.co.uk](http://www.thameswater.co.uk).

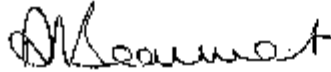
## **Thames Water Utilities Cayman Finance Limited**

### **Strategic report (continued)**

#### **Future outlook**

It is expected that the Company will continue with its current business model for the foreseeable future. The proceeds of these debt raising activities will continue to be passed on to TWUL with a margin charged in addition to the underlying costs following the management of the market risks within the Company.

By the order of the Board



Andrew Beaumont  
Director

Cleanwater Court  
Western Road  
Reading  
Berkshire RG1 8DB

5 June 2014

## **Thames Water Utilities Cayman Finance Limited**

### **Directors' report**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2014.

The Company is registered in the Cayman Islands. Its operations are conducted entirely within the UK and therefore the Company is considered (and has always been considered) resident in the UK for tax purposes. The purpose of these financial statements is to enable the Company to comply with its obligations in respect of the whole business securitisation. There is no statutory requirement for the directors to prepare financial statements under Cayman Island statutes. Accordingly, the financial statements have been prepared on a going concern basis and on the basis of the financial reporting framework of International Financial Reporting Standards as adopted by the European Union (EU Adopted IFRSs) and as if applicable UK law applied to them.

The registered company number is MC-187772 (Cayman Islands).

### **Future outlook**

The future outlook of the Company is discussed in the strategic report on page 4.

### **Dividends**

The directors did not pay any dividends in the year (2013: £nil) and do not recommend the payment of a final dividend (2013: £nil).

### **Directors' indemnity provisions**

The Company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and these remain in force at the date of this report.

### **Directors**

The directors who held office during the year ended 31 March 2014 and up to the date of signing were:

A Beaumont  
S Ledger  
P Kerr (Appointed 6 September 2013)

During the year under review, none of the directors had any contracts with the Company or any other body corporate other than their contracts and service.

### **Political donations**

No political donations were made by the Company during the year (2013: £nil).

### **Financial Instruments and risk management**

The Company is a financing subsidiary of TWUL. Its principal activity is to ensure availability of funds in the capital markets and to lend on the proceeds to TWUL. The Company manages the market risks associated with raising debt and ultimately passes on the proceeds to TWUL. A margin is charged on the bonds that are lent on to TWUL commensurate with the underlying market risks the Company manages on TWUL's behalf.

The Company has access to the Group Executive Management Team, which receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken. The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk and liquidity risk.

The operation of the treasury function is governed by specific policies and procedures that set out specific guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Company; see note 12 for further details.

## Thames Water Utilities Cayman Finance Limited

### Directors' report (continued)

#### Financial Instruments and risk management (continued)

The Company manages the foreign exchange risk and interest rate risk on the majority of external borrowings using derivative financial instruments. The resultant proceeds, after these risk management activities, are lent on to TWUL as Sterling (GBP) denominated loans. This ensures that these risks are retained and managed within the Company.

#### Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### Auditor

The Company's auditor, KPMG Audit Plc, informed the directors that for administrative reasons and to instigate the orderly wind down of business, they wished to formally change the entity which conducts the Company's audit from KPMG Audit Plc to KPMG LLP.

KPMG Audit Plc resigned as auditor on 30 October 2013 pursuant to section 516 of the Companies Act 2006 and KPMG LLP was appointed as auditor of the Company under section 486 of the Companies Act 2006.

By order of the Board:



Andrew Beaumont  
Director

Clearwater Court  
Vestern Road  
Reading  
Berkshire RG1 8DR

5 June 2014

## Thames Water Utilities Cayman Finance Limited

### Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors of Thames Water Utilities Cayman Finance Limited ('the directors') have accepted responsibility for the preparation of these financial statements, the Strategic report and the Directors' report for the year ended 31 March 2014 which are intended by them to give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. The financial statements accounts are prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted by the EU ('EU Adopted IFRS's') and as if applicable UK law applied to them.

In preparing these financial statements accounts, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRS's as adopted by the EU; and
- prepared the financial statements accounts on the going concern basis as they believe that the Company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Thames Water Utilities Cayman Finance Limited

### Independent auditor's report to Thames Water Utilities Cayman Finance Limited

We have audited the non-statutory accounts of Thames Water Utilities Cayman Finance Limited for the year ended 31 March 2014 set out on pages 9 to 31. These non-statutory accounts have been prepared for the reasons set out in note 1 to the non-statutory accounts and on the basis of the financial reporting framework of International Financial Reporting Standards (IFRSs) as adopted by the EU and as if applicable UK law applied to them.

Our report has been prepared for the Company solely in connection with the terms of our engagement. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

#### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 9 December 2013 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the non-statutory accounts

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory accounts sufficient to give reasonable assurance that the non-statutory accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the entity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory accounts.

#### Opinion on non-statutory accounts

In our opinion the non-statutory accounts:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the Companies Act 2006, as if those requirements were to apply.

**KPMG LLP**

KPMG LLP

Chartered Accountants  
15 Canada Square  
London, E14 5GL

5 June 2014

## Thames Water Utilities Cayman Finance Limited

### Statement of comprehensive income

	Note	Year ended 31 March 2014 £m	Year ended 31 March 2013 Restated* £m
Finance income	2	324.3	263.1
Finance expenses	5	(240.9)	(348.8)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>83.4</b>	<b>(85.7)</b>
Taxation (charge)/credit	6	(22.1)	19.0
<b>Profit/(loss) for the financial period</b>	<b>14</b>	<b>61.3</b>	<b>(66.7)</b>

\* See note 1

All amounts relate to continuing operations.

The result for the year and the prior year is equivalent to the comprehensive income.

The notes from pages 12 to 30 form part of these financial statements

# Thames Water Utilities Cayman Finance Limited

## Statement of financial position

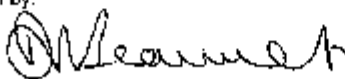
	Note	As at 31 March 2014 £m	As at 31 March 2013 Restated* £m
<b>Non-current assets</b>			
Loans receivable from group entities	13	4,731.1	4,829.1
Derivatives	12	12.7	21.1
Deferred tax asset	7	19.4	40.4
Other financial assets		2.7	3.9
		<b>4,765.9</b>	<b>4,894.5</b>
<b>Current assets</b>			
Loans receivable from group entities	16	116.8	-
Other financial assets	8	115.7	111.4
Cash and cash equivalents	9	-	0.8
		<b>232.5</b>	<b>112.2</b>
<b>Total assets</b>		<b>4,998.4</b>	<b>5,006.7</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	11	(93.8)	-
Derivatives	12	(6.2)	(100.8)
Other financial liabilities	10	(99.7)	-
		<b>(199.7)</b>	<b>(100.8)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	11	(4,668.5)	(4,808.4)
Derivatives	12	(192.1)	(217.5)
Other liabilities		(2.7)	(3.9)
		<b>(4,863.3)</b>	<b>(5,029.8)</b>
<b>Total liabilities</b>		<b>(5,063.0)</b>	<b>(5,130.6)</b>
<b>Net liabilities</b>		<b>(82.6)</b>	<b>(123.9)</b>
<b>Equity</b>			
Share capital	13	-	-
Retained losses	14	(62.6)	(123.9)
<b>Total deficit</b>	15	<b>(62.6)</b>	<b>(123.9)</b>

\*See note 1(a)

The notes from pages 12 to 30 form part of these financial statements

The financial statements on pages 9 to 30 were approved by the Board of Directors on 5 June 2014 and signed on its behalf by:

Andrew Beaumont  
Director



Company registration number MC-187772



## Thames Water Utilities Cayman Finance Limited

### Statement of changes in equity

	Retained Losses £m	Total Deficit £m
Balance at 1 April 2012	(57.2)	(57.2)
<b>Total comprehensive loss for the year</b>		
Loss for the year (restated*)	(66.7)	(66.7)
<b>Balance at 31 March 2013 restated*</b>	<b>(123.9)</b>	<b>(123.9)</b>
<b>Total comprehensive profit for the year</b>		
Profit for the year	61.3	61.3
<b>Balance at 31 March 2014</b>	<b>(62.6)</b>	<b>(62.6)</b>

\*See note 1(a).

### Statement of cash flows

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
<b>Cash flows from investing activities</b>		
Interest received	245.3	198.8
Loans to group companies	-	(587.6)
Redemption of loans to group companies	-	430.8
<b>Net cash from investing activities</b>	<b>245.3</b>	<b>42.0</b>
<b>Cash flows from financing activities</b>		
Proceeds from new loans	-	587.6
Repayment of borrowings	-	(430.8)
Interest paid	(245.3)	(198.8)
Collateral (paid)/received	(0.8)	0.8
<b>Net cash from financing activities</b>	<b>(246.1)</b>	<b>(41.2)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(0.8)</b>	<b>0.8</b>
Cash at the beginning of the year	0.8	-
<b>Cash and cash equivalents at 31 March</b>	<b>-</b>	<b>0.8</b>

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements

### 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items considered material.

#### (a) Basis of preparation

The Company is registered in the Cayman Islands. Its operations are conducted entirely within the UK and therefore the Company is considered (and has always been) resident in the UK for tax purposes. The purpose of these financial statements is to enable the Company to comply with its obligations in respect of the whole business securitisation. The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards that are issued by the International Accounting Standards Board (IASB) and as adopted by the European Union ('EU Adopted IFRSs'). The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments, and
- financial instruments classified as fair value through the profit or loss

The prior year comparatives in the statement of financial position have been restated to remove the interest receivables and payables on derivatives which have already been incorporated in the derivative fair value calculations in line with IAS 39, 'Financial Instruments: Recognition and Measurement'. As a result, receivables in current assets, for 2013, have decreased from £121.8m to £111.4m and payables in current liabilities, for 2013, have decreased from £111.9m to £100.9m with a resultant decrease in net liabilities that were reported at 31 March 2013 of £0.7m. This has had no impact on the statement of cashflows.

In the income statement the coupon interest received from and paid to derivative counterparties have been reclassified and are presented within the movement in fair value of derivative financial instruments. As a result finance income has been restated as £263.1m from £305.5m and finance costs have been restated to £848.8m from £391.9, the net impact being a reduction in the loss before tax of £0.7m. This prior year restatement is reflected in the comparatives in notes 2, 5, 6, 8, 10, 12, 14, and 15. The restatement has had no impact in the statement of cashflows.

#### (b) Going concern

The directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of the Company of £62.6m and the requirement for on-going support from TWUL. This is based upon a review of the TWUL (and that of the securitisation group) budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The Board also took into account potential contingent liabilities and other risk factors that would impact the securitisation group. TWUL has confirmed that it will continue to provide support to the Company to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements.

#### (c) Standards, amendments and interpretations that are not yet effective and that have not been early adopted by the Company

At the date of authorisation of these financial statements, a number of standards, amendments to existing standards and interpretations have been issued by the IASB but are not yet effective. The Company has not early adopted any of these. The standards and amendments to standards that could have an impact on the Company's future financial statements are listed in the table in the next page;

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 1. Principal accounting policies (continued)

#### (c) Standards, amendments and interpretations that are not yet effective and that have not been early adopted by the Company (continued)

Standard Name	Effective Date
<u>IFRS 9: 'Financial Instruments'</u> Phase 1 of IFRS 9 'Financial Instruments' was issued in November 2009 and has subsequently been updated and amended. This is a project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and introduces changes to the classification and measurement of financial assets and liabilities.	Accounting periods beginning on or after 1 January 2015
<u>Annual Improvements IFRS 13: 'Fair Value Measurement'</u> Clarification of the IASB's rationale for removing paragraph B5.4.12 of IFRS 9 <i>Financial Instruments</i> and paragraph AG79 of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> as consequential amendments from IFRS 13 <i>Fair Value Measurement</i> . Those paragraphs in IFRS 9 and IAS 39 contained a guidance related to the measurement of short-term receivables and payables with no stated interest rate of invoice amounts.	Accounting periods beginning on or after 1 July 2014

The Company is currently assessing the impact these standards and amendments may have on the financial performance and financial position.

#### (d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the current and future annual financial statements is included in the following notes.

Note 12 – Financial Instruments  
Note 8 – Taxation – utilisation of tax losses

#### (e) Changes in accounting principles

##### IFRS 13

On 1 April 2013, the Company adopted, IFRS 13, 'Fair Value Measurement' which establishes a single source of guidance for fair value measurement under IFRS. IFRS 13 provides a revised definition of fair value, 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date', and guidance on how it should be applied where its use is already required or permitted by other standards within IFRS and introduces more comprehensive disclosure requirements on fair value measurement. The impact on the Company's financial statements from the adoption of the measurement requirements of IFRS 13 is an adjustment to the fair value of the derivative financial instruments for the Company's and counterparty's own credit risk. The Company has provided the disclosures as required by IFRS 13 in note 12.

##### IFRS 7

In December 2011, the IASB issued amendments to IFRS 7, 'Disclosures - Offsetting Financial Assets and Financial Liabilities' ('IFRS 7R') requiring extended disclosures to allow investors to better compare financial statements prepared in accordance with IFRS or U.S. GAAP. The amendments were effective for annual periods beginning on or after January 1, 2013. The adoption of the amendments has not had a material impact on the Company's financial statements.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 1. Principal accounting policies (continued)

##### (f) Finance income and finance expenses

The Company's finance expense includes interest expense, the net loss on financial instruments at fair value through profit or loss and the foreign exchange loss on foreign currency denominated primary debt instruments.

Finance income represents the recharge to TWUL of costs and interest incurred in respect of the raising of finance on that company's behalf. All interest and debt servicing costs are directly recharged to TWUL. Interest costs incurred on the secured bonds are recharged with an additional margin. Fair value movements on assets and liabilities held at fair value through profit and loss are not recharged.

Finance income also includes gains on assets and liabilities held at fair value through profit and loss and foreign exchange gains.

##### (g) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency, Sterling GBP, at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

##### (h) Financial instruments

###### Non-derivative financial liabilities

Financial instruments issued by the Company are treated as a financial liability in accordance with IAS 32: *Financial Instruments: Presentation*, because:

- (i) they include contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; or
- (ii) the instruments are not settled in the Company's own equity.

Non-derivative financial instruments comprise debt securities, interest receivables, cash, loans and borrowings, and interest payable.

###### *Interest payable*

Interest payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

###### *Cash*

Cash comprises amounts held on deposit.

###### *Interest-bearing loans and borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 1. Principal accounting policies (continued)

##### (h) Financial instruments (continued)

##### Non-derivative financial liabilities (continued)

##### Derivative financial instruments

The Company holds derivative financial instruments in order to manage interest, inflation and foreign exchange risk. Derivatives are initially recognised at fair value; hedge accounting is not applied and therefore any directly attributable transaction costs are recognised in the profit and loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss.

The Company recharges the maximum cost plus a margin incurred on borrowings and risk management activities through inter-company loans to TWUL. TWUL provides funds for the Company to repay its external debt.

##### (i) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects its non-performance risk. In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

##### *Interest payable and receivable*

The fair value of interest payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect of discounting is material.

##### *Cash*

The fair value of cash is equivalent to its carrying amount.

##### *Interest-bearing borrowings*

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. The fair value of listed debt is based on the publicly available quoted prices of the listed debt.

##### *Derivative financial instruments*

The fair value of interest rate swaps are based on bank quotes. The quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

IFRS 13 requires companies to adjust the valuation of a financial instrument to take account of variations in own and counterparty credit risk. The Company has therefore applied credit value adjustments and debt value adjustments to derivative valuations where appropriate. As the requirement is prospective only, the prior year figures have not been amended for the change in valuation technique.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 1. Principal accounting policies (continued)

##### (j) Impairment excluding deferred tax assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### (k) Taxation

The Company is resident in the UK for tax purposes. The tax expense represents the sum of current tax and deferred tax.

###### *Current taxation*

Current tax is based on the taxable profit or loss for the period and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Taxable profit can differ from the net profit as reported in the income statement because it may exclude items of income or expense that are taxable or deductible in other periods and it may further exclude items that are never taxable or deductible.

Consideration receivable or payable in respect of losses surrendered or claimed by way of group relief is dealt with in the income statement.

###### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted by the balance sheet date.

##### (l) Financial Guarantees

The Company raises debt in external debt markets through the issuance of secured bonds and issue of loans. Thames Water Utilities Holdings Limited, TWUL and Thames Water Utilities Finance Limited, Thames Water Utilities Finance Holdings Limited and Thames Water Utilities Cayman Finance Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 2. Finance income

	Year ended 31 March 2014	Year ended 31 March 2013 Restated*
	£m	£m
Interest receivable on other loans	250.2	253.1
Exchange movements on foreign currency debt	65.6	-
Fair value through profit and loss gain	8.5	-
	<b>324.3</b>	<b>253.1</b>

The Company's income and results arise solely in the United Kingdom and are attributable to one principal activity of the Company being the raising of finance and subsequent lending of the debt to TWUL.

\*The prior year comparatives have been restated to exclude interest received from derivative counterparties, which is now presented within the movement in fair value of derivative financial instruments. As a result finance income has been restated as £253.1m from the amount disclosed at 31 March 2013 of £305.5m.

#### 3. Auditor's remuneration

The auditor's remuneration of £13,188 (2013: £12,923) was borne by Thames Water Limited (2013: borne by Thames Water Limited). No other fees were payable to KPMG LLP in respect of this Company in this year (2013: £nil).

#### 4. Staff numbers and costs

The Company has no employees (2013: nil).

No director received any remuneration in respect of their services to the Company (2013: £nil). There are no retirement benefits accruing (2013: £nil).

#### 5. Finance expenses

	Year ended 31 March 2014	Year ended 31 March 2013 Restated*
	£m	£m
Interest payable on other loans	203.0	213.0
Exchange movements on foreign currency debt	-	32.5
Fair value through profit and loss expense	-	59.6
Interest expense: RPI Indexation	37.5	36.7
	<b>240.5</b>	<b>341.8</b>

\*The prior year values have been restated to present foreign exchange losses on foreign currency debt separately which had previously been included in the interest payable on other loans. The coupon interest payable on derivative financial instruments which had been included in the interest payable on other loans line has been restated and is now included in the fair value through profit and loss expense as this is deemed to form part of the change in fair value of the derivative financial instruments. As a result of these adjustments the fair value through profit or loss amount also includes an adjustment of £0.7m to account for the correct fair value movement for the year, which has resulted in a reduction of the loss for the year.

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 6. Taxation

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
<b>Current tax:</b>		
Amounts payable in respect of group relief	1.1	1.0
<b>Deferred tax:</b>		
Origination and reversal of timing differences (note 7)	18.1	(21.8)
Impact on deferred tax asset of tax rate change (note 7)	2.9	1.8
<b>Tax charge/(credit) on profit/loss on ordinary activities</b>	<b>22.1</b>	<b>(19.0)</b>

The tax assessed for the period is higher (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	Year ended 31 March 2014 £m	Year ended 31 March 2013 Restated £m
Profit/(loss) on ordinary activities before tax	83.4	(85.7)
Corporation tax on profit/(loss) on ordinary activities at 23% (2013: 24%)	19.2	(20.8)
Reduction in tax rate on deferred tax balances	2.9	1.8
<b>Total tax charge/(credit) for year</b>	<b>22.1</b>	<b>(19.0)</b>

#### Factors affecting the future tax rate

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 28 March 2012 and 2 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 March 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

### 7. Deferred tax asset

The deferred tax asset relates to the cumulative fair value loss as detailed below:

	As at 31 March 2014 £m	As at 31 March 2013 £m
At the beginning of the year	40.4	20.4
Amounts provided during the year on fair value impact on deferred tax asset of tax rate change	(18.1)	21.8
	(2.8)	(1.8)
<b>At the end of the year</b>	<b>19.4</b>	<b>40.4</b>



## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 8. Other financial assets

	As at 31 March 2014 £m	As at 31 March 2013 Restated* £m
Interest receivable – Internal	114.4	110.5
Other current receivables	1.3	0.9
	<b>115.7</b>	<b>111.4</b>

Internal interest receivable represents cumulative interest earned on financing proceeds that have been lent on to TWUL. There are no amounts past their due by dates. As these assets relate to inter-company debt owed by a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are impaired.

\*The prior year amounts have been restated to exclude the £10.4m of accrued coupon interest receivable on derivative financial instruments that had also been included in the fair value of the derivatives in the statement of financial position. In the prior year statement of financial position the impact of this was offset by coupon interest payable on derivative financial instruments of £11.1m, therefore the net impact of this restatement on net assets, along with that described in note 10, is to decrease net liabilities and the loss for the year in 2013 by £0.7m.

The fair values of the financial assets approximate their carrying value. All loans and receivables are held at amortised cost.

#### 9. Cash and cash equivalents

	As at 31 March 2014 £m	As at 31 March 2013 £m
Cash	-	0.8

The Company is a financing subsidiary of TWUL and all cash proceeds from borrowings are lent on to TWUL. The prior year balance, which is restricted cash, related to the amount of the next coupon interest payment due on the derivative contracts held with counter parties that had failed to meet minimum short term credit rating criteria assigned by Moody's.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 10. Other financial liabilities

	As at 31 March 2014	As at 31 March 2013 Restated*
	£m	£m
Interest payable	96.9	95.9
Group relief creditor	1.1	2.9
Other payables	1.4	1.7
Inter company payables	0.3	0.3
	<b>99.7</b>	<b>100.8</b>

All amounts are measured at amortised cost. The carrying amounts of interest, intercompany and other payables approximates to their fair value.

\*The prior year amounts have been restated to exclude the £11.1m of accrued coupon interest payable on derivative financial instruments that had also been included in the fair value of the derivatives in the statement of financial position. In the prior year statement of financial position the impact of this overstatement was offset by coupon interest receivable on derivative financial instruments of £10.4m, therefore the net impact of this restatement on net assets, along with that described in note 8 is to decrease net liabilities and the loss for the year in 2013 by £0.7m.

#### 11. Interest-bearing loans and borrowings

	As at 31 March 2014	As at 31 March 2013
	£m	£m
<b>Current liabilities:</b>		
Secured bond issues	93.8	-
<b>Non-current liabilities:</b>		
Secured bond issues	4,666.5	4,808.4
	<b>4,760.3</b>	<b>4,808.4</b>

Debt issued by the Company matures between 2015 and 2052 (2013: due between 2015 and 2052). All net proceeds were loaned to TWUL at an additional margin of 10 basis points.

Thames Water Utilities Holdings Limited, TWUL, Thames Water Utilities Finance Limited, Thames Water Utilities Finance Holdings Limited and Thames Water Utilities Cayman Finance Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds.

The bonds are held at amortised cost.

Included within secured bond issues above is £32.3m (2013: £34.8m) of unamortised bond discount.

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 12. Financial instruments

	As at 31 March 2014 £m	As at 31 March 2013 £m
€500m Euro 3.250% fixed rate bond due 2016 (a)	413.4	422.4
£550m 5.375% class B Fixed rate bond due 2026 (b)	547.5	546.7
£300m 5.750% class B Fixed rate bond due 2030 (b)	297.2	298.9
£300m 4.375% fixed rate bond due 2034 (b)	295.0	294.8
€113m 2.300% CPI IL bond due 2022 (a), (c)	100.8	98.5
200m Yen 3.280% fixed rate bond due 2038 (b)	116.9	139.5
£50m 3.853% index linked bond due 2040 (d)	58.3	56.7
£500m 5.500% fixed rate bond due 2041	489.5	489.2
£50m 1.980% index linked bond due 2042 (d)	61.0	59.4
£55m 2.091% index linked bond due 2042 (d), (b)	85.0	83.2
£40m 1.974% Index linked bond due 2045 (d), (b)	45.1	43.9
£300m 4.825% fixed rate bond due 2046 (b)	293.0	292.8
£100m 1.848% Index linked bond due 2047 (d)	122.1	118.8
£200m 1.818% index linked bond due 2049 (d), (b)	243.6	237.2
£200m 1.771% index linked bond due 2057 (d), (b)	243.6	237.2
£400m 7.241% fixed rate bond due 2058*	399.0	398.8
£350m 1.760% index linked bond due 2062 (d), (b)	426.2	415.0
\$156m FRN due 2015 (e), (f), (g)	93.8	103.1
\$150m 4.690% class B private placement due 2019 (a), (b)	88.6	97.3
\$150m 3.870% private placement due 2022 (a)	90.2	98.1
\$250m 4.020% private placement due 2024 (a)	120.2	132.2
\$250m 4.220% private placement due 2027 (a)	150.3	165.3
<b>Total interest bearing loans and other borrowings</b>	<b>4,760.3</b>	<b>4,808.4</b>
Less amounts included within current liabilities	(93.8)	-
<b>Interest bearing loans and other borrowings – non-current liabilities</b>	<b>4,666.5</b>	<b>4,808.4</b>

\* £400m Class A bond issued with a final maturity date of 9 April 2058 with a fixed coupon of 7.241% until 9 April 2018. If at this date interest rates have risen, the bond will be "put" at par by investors and redeemed by the Company. Should interest rates have fallen, the bond will be called by the Company and either re-marketed for the remaining 40-year period at the underlying PCR rate (4.572%) plus the prevailing credit spread or the Company will settle related derivative contracts with bank counterparties and redeem the bond at par.

(a) The Company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US Dollar and Euro loans.

(b) These loans are shown net of issue costs.

(c) The Company has entered into swap agreements that convert this debt into index-linked debt.

(d) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index (RPI).

(e) The Company has entered into an index-linked swap, in relation to this debt, where it receives floating rate interest at 6 month LIBOR plus a margin until February 2015. After this date the interest rate is reduced to 6 month LIBOR.

(f) The index-linked swap associated with this debt has accretion pay downs at five year intervals.

(g) Amounts repayable wholly within one year.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 12. Financial instruments (continued)

##### Funding and Treasury Policy

The Company's debt arises from the issuance of secured bonds. The Group's policy is to maintain a broad portfolio of debt, diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures and maintain liquidity. The management of interest rate risk, inflation risk and foreign exchange risk includes the use of derivative financial instruments.

The treasury function is managed as a cost centre, not a profit centre. No material open or speculative positions are taken and the operation of the treasury function is governed by specific policies and procedures that set out specific guidelines for the management of liquidity, credit and market risks associated with the financing activities of the Group. Treasury policy and procedures are incorporated within the financial control procedures of the Group.

The Company's funding policy is in accordance with that of its ultimate parent company, Kewpie Water Holdings Limited, see note 17. The Group's treasury operations are managed centrally, in the UK, by a specialist team, which operates with delegated authority of, and under policies approved by, the Board of Directors. Therefore, risks are managed on a Group wide basis.

The primary financial instruments are mainly bonds that are traded on a public market. Fair values for these have been determined by using the closing quoted prices from Bloomberg at year end. Mark-to-market techniques involving discounting expected future cash flows at prevailing interest and exchange rates are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments that are not quoted on a public market. More information on the techniques used to determine fair values is provided below. Due to their short term nature the fair values of interest receivables, interest payables and cash are estimated to approximate their carrying values.

##### Financial risk management

The Company's exposure to currency or interest rate risk is managed by matching financial assets to the liabilities of the Company so that economic exposure of cash flows to interest or exchange rates is minimised. The extent to which the Company's operations expose it to a variety of financial risks including the effects of changes in debt market prices and liquidity risk is detailed below.

##### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by raising funds in the capital markets and ensuring that diverse debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities.

At the year end, the Company had undrawn committed facilities of £750m (2013: £750m). These facilities are maintained to ensure liquidity and the continuation of the TWUL capital investment programme. In addition the Company has access to £450m (2013: £450m) of liquidity facilities of which £320m (2013: £320m) is to finance TWUL's debt service costs and £130m (2013: £130m) to finance TWUL's operating and maintenance costs. These facilities address the risk of TWUL being in default of its debt service obligations and having insufficient liquidity. All facilities are undrawn at 31 March 2014 (2013: £nil).

Concentrations of liquidity risk may arise if large cash flows are concentrated within particular periods. The Company manages liquidity risk on long-term borrowings by maintaining a varied maturity profile with a cap on the level of debt maturing in any one calendar year, therefore minimising refinancing risk. The Company has a £10bn (2013: £10bn) secured bond programme which provides the Company with access to the capital markets in a range of currencies and maturities.

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 12. Financial instruments (continued)

#### Liquidity risk (continued)

The maturity profile of the interest-bearing loans and borrowings disclosed in the statement of financial position are given below. The bonds are repayable between 2015 and 2032.

#### Maturities

	As at 31 March 2014 £m	As at 31 March 2013 £m
- Within one year	93.8	-
- Between one and two years	-	103.2
- Between two and three years	413.3	-
- Between three and four years	-	422.4
- Between four and five years	88.6	-
- After more than five years	4,164.6	4,282.8
<b>Total</b>	<b>4,760.3</b>	<b>4,808.4</b>

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis, which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

	As at 31 March 2014 £m	As at 31 March 2013 £m
Loans (secured)		
- Within one year	(288.4)	(187.0)
- Between one and two years	(194.7)	(300.7)
- Between two and three years	(609.1)	(197.0)
- Between three and four years	(183.3)	(620.0)
- Between four and five years	(874.2)	(734.6)
- After more than five years	(8,757.7)	(9,132.9)
<b>Total</b>	<b>(11,707.4)</b>	<b>(11,182.2)</b>

The maturity profile of the Company's financial derivatives (which include interest rate and foreign exchange swaps), based on undiscounted cash flows, is as follows:

	As at 31 March 2014 £m	As at 31 March 2013 £m
Derivatives		
- Within one year	(28.8)	(1.9)
- Between one and two years	(3.8)	1.3
- Between two and three years	(28.8)	(1.7)
- Between three and four years	(1.3)	(17.3)
- Between four and five years	(7.7)	0.6
- After more than five years	(141.5)	(227.8)
<b>Total</b>	<b>(212.5)</b>	<b>(246.8)</b>

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 12. Financial instruments (continued)

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from TWUL and cash flows receivable from counterparties to the derivative financial instruments.

Under the terms of the Company's risk management policy, derivative counterparties have to meet minimum short term credit rating criteria assigned by either Moody's, Fitch Ratings or Standard & Poor's. Counterparty risk is monitored on a daily basis in accordance with treasury policies and procedures. There is also a mechanism for the counterparty to post collateral when amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria. At 31 March 2014 the Company held £nil (2013: £0.8m) of collateral cash representing the next interest payments due on the derivative contracts held with counter parties that have failed to meet minimum short term credit rating criteria assigned by Moody's. These cash balances are held as restricted cash.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £4,962.3m (2013: £4,940.4m) being the total of the carrying amount of financial assets shown below.

	As at 31 March 2014 £m	As at 31 March 2013 £m
Cash (note 9)	-	0.8
Interest receivable – Internal (note 8)	114.4	110.5
Loans receivable from group entities (note 16)	4,847.9	4,829.1
	<b>4,962.3</b>	<b>4,940.4</b>

#### Credit quality of financial assets and impairment losses

The Company is a financing subsidiary of TWUL. Its principal activity is to ensure availability of funds in the capital markets and to lend all the proceeds to TWUL. The above assets relate to intercompany debt owed by TWUL, which has a high credit rating and therefore the risk exposure is deemed immaterial, and no amounts are impaired.

There are no amounts past their due by dates.

#### Capital risk

Capital risk relates to whether the Company is adequately capitalised and financially solvent.

The Company is part of a securitisation group of companies. Capital risk is managed by the issuance of secured bonds with a diverse maturity profile. These borrowings are loaned internally to TWUL. Borrowing facilities are managed across the securitised group in order to meet anticipated funding requirements of TWUL. The debt profile of the securitisation group is maintained to ensure that, at least 85% of the interest cost within the securitisation group is based on either fixed or RPI-linked interest rates.

The securitisation group is required to comply with financial covenants, including interest cover and Regulatory Capital Value (RCV) gearing ratios. The securitisation group's compliance with covenants is shared with the group's debt rating agencies being Moody's and Standard & Poor's.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 12. Financial instruments (continued)

##### Capital risk (continued)

The securitisation group complied with these ratios throughout the financial year. Further details of these covenants are shown in the TWUL financial statements which are available at the address shown in note 17.

##### Market Risk

Market risk is the risk that changes in market variables such as inflation rates, interest rates and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments.

##### *Inflation risk*

The debt issued by the Company includes RPI linked bonds and swaps and these instruments are exposed to movements in the RPI index. The Company subsequently lends all the proceeds of these instruments to TWUL, a regulated water company with largely RPI linked revenues under the same terms. Therefore the Company's index linked borrowings form an economic hedge as the assets and liabilities are offset. The underlying principle and interest receivable from TWUL will be offset by the principal and interest liability due to the external lender.

The Company also uses derivatives to manage inflation risk on non-index linked borrowings. At the balance sheet date the derivatives are measured at fair value, whereas the underlying debt is measured at amortised cost. The fair value of the derivatives is predisposed to the inflation rates used in the valuation at balance sheet date. Movements in the valuation of derivatives are reflected in the income statement. The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2014 and the comparative period 31 March 2013. This analysis assumes that all other variables, in particular exchange rates, remain constant.

##### *Inflation risk sensitivity analysis*

Impact on profits - Increase/(decrease)	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
1% increase in inflation rate	(114.2)	(132.1)
1% decrease in inflation rate	78.4	91.7

##### *Interest rate risk*

Interest rate risk arises on interest-bearing financial instruments. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows, thereby protecting future cash flows against interest rate movements.

The Company ultimately passes on borrowed proceeds to TWUL after managing the market risk. The terms of the synthetic bonds are replicated through intercompany loan agreements. TWUL provides funds for the Company to repay its external debt. Therefore movements in interest rates on the Company's liabilities are offset by movements in the receivable due from TWUL. The impact on the profit or loss is limited to the margin of 10 basis points that is charged to TWUL.

Where the Company has floating rate instruments, the Company enters interest rate swaps which provide certainty over future cash flows when the instruments are held to maturity. The fair value of these derivatives is exposed to changes in interest rates. The Company does not perform hedge accounting and the movement in the fair value of these derivatives is recognised in the statement of comprehensive income.

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 12. Financial Instruments (continued)

#### Market Risk (continued)

##### Interest rate risk sensitivity analysis

The table below summarises the impact of changes in the fair value of interest rate swaps on pre-tax profits of a 1% increase or decrease in interest rates at 31 March 2014. This analysis assumes that all other variables remain constant.

Impact on profits - Increase/(decrease)	Year ended 31 March 2014 £m	Year ended 31 March 2013 Revised £m
1% increase in interest rate	103.1	134.4
1% decrease in interest rate	(131.8)	(161.6)

##### Foreign exchange risk

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses a range of instruments to provide an economic hedge for such exposures. All hedges are undertaken for commercial reasons with the objective of eliminating the impact of exchange rate fluctuations on future cash flows. In all cases the impact of foreign exchange movements on cash flows are fully hedged, however the differing accounting treatment between the debt instrument and the associated currency swap give rise to charges or gains in the income statement. The majority of foreign currency denominated debt is lent on to TWUL in GBP.

The Company does not perform hedge accounting, as a consequence at each reporting date the financial instruments that are denominated in foreign currency are revalued at the applicable exchange rate and any gains or losses are recognised in the income statement. The movement in the fair value of the derivative instruments related to foreign exchange risk is also recognised in the income statement.

##### Foreign exchange risk sensitivity analysis

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2014. This analysis assumes that all other variables in the valuation remain constant.

Impact on profits - Increase/(decrease)	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
10% strengthening of GBP	(20.3)	(21.5)
10% weakening of GBP	0.9	9.5



# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 12. Financial instruments (continued)

#### Market Risk (continued)

Below is the effective interest rate and currency rate risk profile of the debt held by the company after taking into account the derivative financial instruments used to manage market risk.

	Total at fixed rates		Total at RPI linked rates		Total book value of debt plus fair value of the derivatives	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
Interest bearing loans and borrowings						
Net of corresponding swap assets						
- £ Sterling	3,288.6	3,280.6	1,673.7	1,600.8	4,830.2	4,881.4
- Other	118.9	139.0	(5.3)	(14.8)	111.8	125.1
<b>Total</b>	<b>3,373.4</b>	<b>3,420.5</b>	<b>1,569.4</b>	<b>1,586.0</b>	<b>4,841.8</b>	<b>5,006.5</b>

The weighted average interest rates of the debt held by the Company and the period until maturity for which the rate is fixed are given below:

	Weighted average interest rate for fixed rate and RPI linked debt		Weighted average period until maturity for which rate is fixed for fixed rate and RPI linked debt	
	2014	2013	2014	2013
	%	%	Years	Years
Interest bearing loans and borrowings				
- £ Sterling	4.1	4.1	25.3	22.8
- Other	3.3	3.3	24.4	25.4
	<b>4.1</b>	<b>4.1</b>	<b>25.3</b>	<b>22.7</b>

#### Fair values

The fair values of financial assets and liabilities are measured as prescribed by IFRS 13 'Fair Value Measurement'. Fair values are determined according to the following hierarchy:

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The fair value of interest rate swaps is based on bank quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. IFRS 13 requires companies to adjust the valuation of a financial instrument to take account of variations in credit. The Company has therefore applied credit value adjustments and debt value adjustments to derivatives where appropriate. As the requirement is prospective only, the prior year figures have not been amended for the change in valuation technique.

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 12. Financial instruments (continued)

#### Fair Values (continued)

The tables below set out a comparison of the carrying and fair values of the Company's financial assets and financial liabilities. During the current year and the prior year the Company did not enter any new derivative contracts.

The effects of revaluing foreign currency borrowings at closing rates that are measured at amortised cost are included in the carrying values.

#### Financial Assets

	Carrying value As at 31 March 2014 £m	Carrying value As at 31 March 2013 Restated* £m	Fair value As at 31 March 2014 £m	Fair value As at 31 March 2013 Restated* £m
<b>Primary financial instruments</b>				
Assets measured at amortised cost				
- Loans receivable from group entities	4,847.9	4,829.1	4,986.4	5,367.9
- Interest receivables	114.4	110.5	114.4	110.5
Assets measured at fair value				
- Derivative Financial Assets	12.7	21.1	12.7	21.1
- Cash	-	0.8	-	0.8
<b>Total</b>	<b>4,975.0</b>	<b>4,961.5</b>	<b>5,112.5</b>	<b>5,490.3</b>

\*Prior year values have been restated to reflect the correction of the derivative calculations as detailed in note 1 (a).

#### Financial Liabilities

	Carrying value As at 31 March 2014 £m	Carrying value As at 31 March 2013 Restated* £m	Fair value As at 31 March 2014 £m	Fair value As at 31 March 2013 Restated* £m
<b>Primary financial instruments</b>				
Liabilities measured at amortised cost				
- Interest-bearing loans and borrowings	4,760.3	4,808.4	4,799.8	5,161.4
- Interest payables	86.9	95.8	95.9	95.8
Liabilities measured at fair value				
- Derivative Financial Liabilities	198.3	217.5	198.3	217.5
<b>Total</b>	<b>5,055.5</b>	<b>5,121.8</b>	<b>5,095.0</b>	<b>5,474.8</b>

Prior year values have been restated to reflect the correction of the derivative calculations as detailed in note 1 (a).

The notional value of the derivative assets at the year end is £93.4m (2013: £95.5m) and the derivative liabilities is £1,264.0m (2013: £1,395.7m). The nominal value of the total debt is £4,508.1m (2013: £4,651.6m).

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 12. Financial instruments (continued)

##### Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

	31 March 2014				31 March 2013			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets designated at fair value through profit and loss	-	12.7	-	12.7	-	21.1	-	21.1
Financial liabilities designated at fair value through profit and loss	-	198.3	-	198.3	-	217.5	-	217.5
Net financial instruments designated as fair value through profit and loss	-	185.6	-	185.6	-	196.4	-	196.4

At 31 March 2014 the Company did not have any assets and liabilities reported in the statement of financial position that would be classified at level 1 or level 3 of the fair value hierarchy.

#### 13. Share capital

	As at 31 March 2014 £	As at 31 March 2013 £
Alotted, called-up and fully paid 1 ordinary shares of £1 each	1	1

#### 14. Retained losses

	As at 31 March 2014 £m	As at 31 March 2013 Restated £m
Retained losses at beginning of the year	(123.9)	(57.2)
Profit/(loss) for the year	61.3	(66.7)
<b>Retained losses at the end of the year</b>	<b>(62.6)</b>	<b>(123.9)</b>

#### 15. Reconciliation of movements in total deficit

	As at 31 March 2014 £m	As at 31 March 2013 Restated £m
Opening shareholder's deficit	(123.9)	(57.2)
Profit/(loss) for the year	61.3	(66.7)
<b>Closing shareholder's deficit</b>	<b>(62.6)</b>	<b>(123.9)</b>

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 16. Related Parties

#### Transactions with group entities

The Company was established to make certain financing arrangements on behalf of TWUL. The major transactions of the Company are the raising of finance and subsequent lending of the debt to TWUL on the same terms and conditions except interest where a margin is charged on the issued bonds. Loans receivable from group entities represent cumulative financing proceeds that have been lent on to TWUL.

There are no amounts past their due by dates.

As these assets relate to inter-company debt owed by a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are impaired. All loans and receivables are held at amortised cost.

Interest receivable from TWUL during the year was £260.2 (2013: £263.1m).

As a result of the above transactions the loans receivable from group entities at 31 March are as follows:

	31 March 2014 £m	31 March 2013 £m
<b>Non-current assets</b>		
Thames Water Utilities Limited	4,731.1	4,829.1
<b>Current assets</b>		
Thames Water Utilities Limited	116.8	-
<b>Total loans receivable from group entities</b>	<b>4,847.9</b>	<b>4,829.1</b>

#### Transactions with key management personnel

During the year under review, none of the directors had any contracts with the Company or any other body corporate other than their contracts of service.

### 17. Ultimate parent and controlling party

The immediate parent undertaking is Thames Water Utilities Cayman Finance Holdings Limited, a company incorporated in the Cayman Islands.

Kemble Water Finance Limited, a company incorporated in the United Kingdom, is the intermediate parent company and the smallest group to consolidate these voluntary financial statements.

The directors consider Kemble Water Holdings Limited, a company incorporated in the United Kingdom, to be the ultimate parent and controlling party and the largest group to consolidate these voluntary financial statements.

Copies of the financial statements of all of the above companies may be obtained from: The Company Secretarial Department Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

### 18. Post balance sheet events

On 22 April 2014 TWUL issued an announcement to the London Stock Exchange launching the consent solicitation process to seek the approval of secured creditors to change the terms of certain finance documents. Bondholder meetings took place on 15 May and the proposal was passed on 16 May. Further to this consent, the proposed changes will be implemented on satisfaction of further specific conditions which are the issue of the TTT Project Specification Notice and the affirmation of credit ratings at specific levels as set out in relevant finance documents.

Whilst these changes are considered important to the securitisation group, there is no immediate financial effect.

Registered no: MC-187772 (Cayman Islands)

**Thames Water Utilities Cayman Finance Limited**

Annual report and financial statements

For the year ended 31 March 2015

## **Thames Water Utilities Cayman Finance Limited**

### **Annual report and financial statements for the year ended 31 March 2015**

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## **Thames Water Utilities Cayman Finance Limited**

### **Directors and advisors**

#### **Directors**

A Beaumont  
S Ledger  
P Kerr

#### **Registered auditor**

KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

#### **Company secretary & registered office**

D Hughes  
M&C Corporate Services Limited  
PO Box 309GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands

## Thames Water Utilities Cayman Finance Limited

### Strategic report

The directors present their Strategic report for Thames Water Utilities Cayman Finance Limited ("the Company") for the year ended 31 March 2015.

#### Review of the business and strategy

The Company raises finance on behalf of the main trading subsidiary within the Kemble Water Holdings Group ("the Group"), Thames Water Utilities Limited ("TWUL"). On 30 August 2007, the company entered into a multicurrency programme for the issuance of up to £10bn Guaranteed Wrapped Bonds (Wrapped Bonds meaning bonds that have the benefit of a financial guarantee) and Guaranteed Unwrapped Bonds. At 31 March 2015, £4.7bn of bonds (2014: £4.3bn) have been issued under this programme.

The major transactions of the Company are the raising of finance and subsequent lending of the debt to TWUL. The Company manages the market risks associated with raising debt and ultimately passes on the proceeds to TWUL. A margin of 10 basis points is charged on the bonds that are lent on to TWUL commensurate with the underlying market risks the Company manages on TWUL's behalf.

The Company is part of a securitisation group of companies which comprises, Thames Water Utilities Limited, Thames Water Utilities Holdings Limited, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited ("the securitisation group"). The payment of all amounts owing in respect of the external debt issued by the Company is unconditionally and irrevocably guaranteed by all companies within the securitisation group.

A Corporate Family Rating ("CFR") is assigned by Moody's and reflects the consolidated rating of the different classes of outstanding debt obligations issued by the Company, Thames Water Utilities Finance Limited and TWUL. TWUL's licence requires an investment grade credit rating of at least Baa3 from Moody's or BBB- from Standard & Poor's ("S&P") to be maintained, as this ensures the Company can access the debt funding that is needed to support the delivery of the investment programme in an efficient and cost effective manner.

On 27 February 2015, Moody's affirmed the CFR at Baa1 with a stable outlook. With regards to risk associated with the Thames Tideway Tunnel ("TTT"), Moody's stated, "Moody's also believes that key uncertainties resulting in incremental risks that TWUL is exposed to in relation to the TTT project are adequately mitigated through a specific mechanism for an interim price review in certain circumstances outside of management's control." Additionally, Moody's issued revised guidance that TWUL should maintain leverage of around 80% or under and adjusted interest cover at around 1.3x or over.

In September 2014 S&P moved the A- (Class A) and BBB (Class B) credit ratings of the Company to negative outlook, at this time S&P were focussed on limited headroom in financial ratios and risks in relation to operational and customer service performance. S&P has not issued an updated credit opinion subsequent to the Final Determination.

#### Gearing and interest cover

On 24 March 2015 TWUL launched a proposal to introduce a new conformed interest cover covenant to reflect recent changes to the regulatory framework. This proposal successfully passed on 10 April 2015. In the original "Adjusted ICR" covenants, Current Cost Depreciation ("CCD") and Infrastructure Renewals Charge ("IRC") - which are a regulatory proxy for capital maintenance - are subtracted from net cash flow in order to make this calculation. From 1 April 2015, Ofwat ceased to publish CCD and IRC effectively rendering the covenants not fit for purpose as there would be no adjustment to cash to reflect the amounts which TWUL is required to spend on maintenance. To address this, a new covenant has been introduced to take account of required maintenance spend by TWUL using the relevant new regulatory building blocks. This is consistent with the affirmation of our credit rating by Moody's on 27 February 2015.



## **Thames Water Utilities Cayman Finance Limited**

### **Strategic report (continued)**

#### **Results and performance**

For the financial year ended 31 March 2015, the Company made a loss before tax of £85.9m (2014: profit before tax of £83.4m). The loss is due to negative movements in the derivative fair values which are marked to market through the income statement. The Company manages market risks associated with financing activities by using derivative financial instruments and does not pass on the year on year movement in derivative fair values to TWUL as the derivatives are in relation to debt obligations which the Company expects to hold to maturity.

The Company does not apply hedge accounting. Therefore foreign exchange revaluations of the foreign currency debt instruments are disclosed within finance income in the notes to the income statement. All derivatives are classed as fair value through profit and loss financial instruments.

During the financial year ended 31 March 2015 the Company has issued debt of £493.5m and repaid debt of £119.6m (2014: no debt was issued or repaid).

#### **Principal risks and uncertainties**

The Company is a financing subsidiary of TWUL, and is resident in the UK for tax purposes. Accordingly all financing transactions and obligations are passed on to TWUL by way of inter-company loans. Risk management relating to the financing obligations of TWUL is managed as part of the overall financial risk management strategy of the securitisation group.

From the perspective of the Company, the principal risks and uncertainties are integrated within the principal risks of the securitisation group and are not therefore managed separately. The principal risks of the securitisation group are largely similar to those disclosed in the consolidated financial statements of the ultimate controlling parent, Kemble Water Holdings Limited ("KWH"). Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's annual report which does not form part of this report. The Group's annual report is available from the address shown on page 27.

#### **Key performance indicators**

The Company's activities are monitored in line with the performance of the securitisation group. The key performance indicators of the securitisation group are discussed in greater detail in the annual report and accounts of the main trading subsidiary, TWUL and the annual report and consolidated accounts of the ultimate controlling company, KWH, both of which are available from the address shown on page 27. TWUL's financial statements are also available online at [www.thameswater.co.uk](http://www.thameswater.co.uk).

#### **Future outlook**

It is expected that the Company will continue with its current business model for the foreseeable future. The proceeds of these debt raising activities will continue to be passed on to TWUL with a margin charged in addition to the underlying costs following the management of the market risks within the Company.

Approved by the Board of Directors on 4 June 2015 and signed on its behalf by:

**Andrew Beaumont**  
**Director**

Clearwater Court  
Vastern Road  
Reading  
Berkshire RG1 8DB

## **Thames Water Utilities Cayman Finance Limited**

### **Directors' report**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2015.

The Company is registered in the Cayman Islands. Its operations are conducted entirely within the UK and therefore the Company is considered (and has always been considered) resident in the UK for tax purposes. The purpose of these financial statements is to enable the Company to comply with its obligations in respect of the whole business securitisation. There is no statutory requirement for the directors to prepare financial statements under Cayman Island statutes. Accordingly, the financial statements have been prepared on a going concern basis and on the basis of the financial reporting framework of International Financial Reporting Standards as adopted by the European Union (EU Adopted IFRS's) and as if applicable UK law applied to them.

The registered company number is MC-187772 (Cayman Islands).

### **Future outlook**

The future outlook of the Company is discussed in the strategic report on page 3.

### **Going concern**

The directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of the Company of £115.4m and the requirement for on-going support from TWUL. This is based upon a review of the TWUL (and that of the securitisation group) budget, draft business plan for the five years 2015-2020 and investment programme, together with the cash and committed borrowing facilities available. The Board also took into account potential contingent liabilities and other risk factors that would impact the securitisation group. TWUL has confirmed that it will continue to provide support to the Company to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements.

### **Dividends**

The Company did not pay any dividends in the year (2014: £nil) and the directors do not recommend the payment of a final dividend (2014: £nil).

### **Directors' indemnity provisions**

The Company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and these remain in force at the date of this report.

### **Directors**

The directors who held office during the year ended 31 March 2015 and up to the date of signing were:

A Beaumont  
S Ledger  
P Kerr

During the year under review, none of the directors had any contracts with the Company or any other body corporate other than their contracts of service.

### **Political donations**

No political donations were made by the Company during the year (2014: £nil).



## **Thames Water Utilities Cayman Finance Limited**

### **Directors' report (continued)**

#### **Financial instruments and risk management**

The Company is a financing subsidiary of TWUL. Its principal activity is to raise finance in the capital markets and to lend on the proceeds to TWUL. The Company manages the market risks associated with raising debt and ultimately passes on the proceeds to TWUL. A margin is charged on the bonds that are lent on to TWUL commensurate with the underlying market risks the Company manages on TWUL's behalf.

The Company has access to the Group Executive Management Team, which receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken. The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk and liquidity risk.

The operation of the treasury function is governed by specific policies and procedures that set out guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Company; see note 11 for further details.

#### **Financial instruments and risk management (continued)**

The Company manages the foreign exchange risk and interest rate risk on the majority of external borrowings using derivative financial instruments. The resultant proceeds, after these risk management activities, are lent on to TWUL as Sterling (GBP) denominated loans. This ensures that these risks are retained and managed within the Company.

#### **Disclosure of information to the auditor**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors on 4 June 2015 and signed on its behalf by:

**Andrew Beaumont**  
**Director**

Clearwater Court  
Vastern Road  
Reading  
Berkshire RG1 8DB

## **Thames Water Utilities Cayman Finance Limited**

### **Statement of directors' responsibilities in respect of the annual report and the financial statements**

The directors of Thames Water Utilities Cayman Finance Limited ('the directors') have accepted responsibility for the preparation of these non-statutory accounts, the Strategic report and the Directors' report for the year ended 31 March 2015 which are intended by them to give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. They have decided to prepare the non-statutory accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU ("EU Adopted IFRS's") and as if applicable UK law applied to them.

In preparing these financial statements accounts, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepared the financial statements accounts on the going concern basis as they believe that the Company will continue in business.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report to Thames Water Utilities Cayman Finance Limited**

We have audited the non-statutory accounts of Thames Water Utilities Cayman Finance Limited for the year ended 31 March 2015 set out on pages 8 to 27. These non-statutory accounts have been prepared for the reasons set out in note 1 to the non-statutory accounts and on the basis of the financial reporting framework of International Financial Reporting Standards (IFRSs) as adopted by the EU and as if applicable UK law applied to them.

Our report has been prepared for the Company solely in connection with the terms of our engagement. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the non-statutory accounts, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the non-statutory accounts in accordance with the terms of our engagement letter dated 9 April 2015 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the non-statutory accounts**

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory accounts sufficient to give reasonable assurance that the non-statutory accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the entity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory accounts.

### **Opinion on non-statutory accounts**

In our opinion the non-statutory accounts:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the Companies Act 2006, as if those requirements were to apply.

**Robert Brent (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants  
15 Canada Square  
London, E14 5GL

4 June 2015

## Thames Water Utilities Cayman Finance Limited

### Statement of comprehensive income

	Note	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Finance income	2	248.5	324.3
Finance expenses	5	(314.4)	(240.9)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(65.9)</b>	<b>83.4</b>
Taxation credit/(charge)	6	13.1	(22.1)
<b>(Loss)/profit for the financial period</b>	13	<b>(52.8)</b>	<b>61.3</b>

All amounts relate to continuing operations.

The result for the year and the prior year is equivalent to the comprehensive income.

The notes from pages 11 to 27 form part of these financial statements



# Thames Water Utilities Cayman Finance Limited

## Statement of financial position

	Note	As at 31 March 2015 £m	As at 31 March 2014 £m
<b>Non-current assets</b>			
Loans receivable from group entities	15	5,327.1	4,731.1
Derivatives	11	16.5	12.7
Deferred tax asset	7	34.1	19.4
Other financial assets		1.1	2.7
		<b>5,378.8</b>	<b>4,765.9</b>
<b>Current assets</b>			
Loans receivable from group entities	15	-	118.8
Other financial assets	8	138.7	115.7
		<b>138.7</b>	<b>232.5</b>
<b>Total assets</b>		<b>5,517.5</b>	<b>4,998.4</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	10	-	(93.8)
Derivatives	11	-	(8.2)
Other financial liabilities	9	(116.6)	(99.7)
		<b>(116.6)</b>	<b>(199.7)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	10	(5,250.0)	(4,888.5)
Derivatives	11	(265.2)	(192.1)
Other Liabilities		(1.1)	(2.7)
		<b>(5,516.3)</b>	<b>(4,881.3)</b>
<b>Total liabilities</b>		<b>(5,632.9)</b>	<b>(5,081.0)</b>
<b>Net liabilities</b>		<b>(115.4)</b>	<b>(62.8)</b>
<b>Equity</b>			
Share capital	12	-	-
Retained losses	13	(115.4)	(62.8)
<b>Total deficit</b>	14	<b>(115.4)</b>	<b>(62.8)</b>

The notes from pages 11 to 27 form part of these financial statements

The financial statements were approved by the Board of Directors on 4 June 2015 and signed on its behalf by:

Andrew Beaumont  
Director

Company registration number MC-187772 (Cayman Islands)

## Thames Water Utilities Cayman Finance Limited

### Statement of changes in equity

	Total Deficit* £m
Balance at 1 April 2013	(123.9)
Total comprehensive income for the year	81.3
<b>Balance at 31 March 2014</b>	<b>(62.6)</b>
Total comprehensive loss for the year	(52.8)
<b>Balance at 31 March 2015</b>	<b>(115.4)</b>

\*The amounts included in Total deficit above all relate to retained losses.

### Statement of cash flows

	Year ended 31 March 2015 £m	Year ended 31 March 2014* £m
<b>Cash flows from investing activities</b>		
Interest received	200.6	203.1
Loans to group companies	(493.5)	-
Redemption of loans to group companies	118.1	-
<b>Net cash outflow from investing activities</b>	<b>(174.8)</b>	<b>203.1</b>
<b>Cash flows from financing activities</b>		
Proceeds from new loans	493.5	-
Repayment of borrowings	(119.6)	-
Derivative settlements	1.5	-
Interest paid	(200.6)	(203.1)
Collateral (paid)/received	-	(0.8)
<b>Net cash inflow from financing activities</b>	<b>174.8</b>	<b>(203.9)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-</b>	<b>(0.8)</b>
Cash at the beginning of the year	-	0.8
<b>Cash and cash equivalents at 31 March</b>	<b>-</b>	<b>-</b>

\*The cash flows relating to coupon payments to and receipts from counterparties to the derivative contracts held by the company have been offset in the statement of cash flows. During the prior year some of these cash flows had been presented gross, therefore the comparatives have been changed to reflect the offsetting position. This change in presentation does not affect the net decrease in cash and cash equivalents that was presented last year.



# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements

### 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items considered material.

#### (a) Basis of preparation

The Company is registered in the Cayman Islands. Its operations are conducted entirely within the UK and therefore the Company is considered (and has always been) resident in the UK for tax purposes. The purpose of these financial statements is to enable the Company to comply with its obligations in respect of the whole business securitisation group. The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards that are issued by the International Accounting Standards Board (IASB) and as adopted by the European Union. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments, and
- financial instruments classified as fair value through the profit or loss

#### (b) Going concern

The directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of the Company of £115.4m and the requirement for on-going support from TWUL. This is based upon a review of the TWUL (and that of the securitisation group) budget, draft business plan for the five years 2015-2020 and investment programme, together with the cash and committed borrowing facilities available. The Board also took into account potential contingent liabilities and other risk factors that would impact the securitisation group. TWUL has confirmed that it will continue to provide support to the Company to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements.

#### (c) Standards, amendments and interpretations that are not yet effective and that have not been early adopted by the Company

At the date of authorisation of these financial statements, a number of standards, amendments to existing standards and interpretations have been issued by the IASB but are not yet effective. The Company has not early adopted any of these. The standards and amendments to standards that could have an impact on the Company's future financial statements are listed in the table below;

Standard Name	Effective Date
<b><u>IFRS 9: "Financial Instruments"</u></b> Phase 1 of IFRS 9 "Financial Instruments" was issued in November 2009 and has subsequently been updated and amended. This is a project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and introduces changes to the classification and measurement of financial assets and liabilities.	Accounting periods beginning on or after 1 January 2015
The Company is currently assessing the impact this standard may have on the financial performance and financial position.	
<b><u>Annual Improvements IFRS 13: "Fair Value Measurement"</u></b> Clarification of the IASB's rationale for removing paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and Measurement as consequential amendments from IFRS 13 Fair Value Measurement. Those paragraphs in IFRS 9 and IAS 39 contained a guidance related to the measurement of short-term receivables and payables with no stated interest rate of invoice amounts.	Accounting periods beginning on or after 1 July 2014

The carrying values of short-term receivables and payables held by the Company approximate their fair value therefore no discounting is applied in deriving the fair value of these financial assets and liabilities.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 1. Principal accounting policies (continued)

##### (d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the current and future annual financial statements is included in the following notes:

Note 11 – Financial Instruments

Note 8 – Taxation – utilisation of tax losses

##### (e) Finance income and finance expenses

The Company's finance expense includes interest expense, the net loss on financial instruments at fair value through profit or loss and the foreign exchange loss on foreign currency denominated primary debt instruments.

Finance income represents the recharge to TWUL of costs and interest incurred in respect of the raising of finance on that company's behalf. All interest and debt servicing costs are directly recharged to TWUL. Interest costs incurred on the secured bonds are recharged with an additional margin. Fair value movements on assets and liabilities held at fair value through profit and loss are not recharged.

Finance income also includes gains on assets and liabilities held at fair value through profit and loss and foreign exchange gains.

##### (f) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency, Sterling GBP, at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

##### (g) Financial instruments

###### *Non-derivative financial instruments*

Financial instruments issued by the Company are treated as a financial liability in accordance with IAS 32: *Financial Instruments: Presentation*.

Non-derivative financial instruments comprise debt securities, interest receivables, cash, loans and borrowings, and interest payable.



## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 1. Principal accounting policies (continued)

##### (g) Financial instruments (continued)

###### *Interest payable*

Interest payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

###### *Cash*

Cash comprises amounts held on deposit.

###### *Interest-bearing loans and borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

###### *Derivative financial instruments*

The Company holds derivative financial instruments in order to manage interest, inflation and foreign exchange risk. Derivatives are initially recognised at fair value; hedge accounting is not applied and therefore any directly attributable transaction costs are recognised in the profit and loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss.

The Company recharges the cost plus a margin incurred on borrowings and risk management activities through inter-company loans to TWUL. TWUL provides funds for the Company to repay its external debt.

##### (h) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects its non-performance risk.

###### *Interest payable and receivable*

The fair value of interest payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect of discounting is material.

###### *Cash*

The fair value of cash is equivalent to its carrying amount.

###### *Interest-bearing borrowings*

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. The fair value of listed debt is based on the publicly available quoted prices of the listed debt.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 1. Principal accounting policies (continued)

##### (h) Fair values (continued)

###### *Derivative financial instruments*

The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates at the measurement date. The valuations are tested for reasonableness by comparing these to bank quotes. The fair value calculations have been adjusted to incorporate the Company's own and counter party credit risk where appropriate.

##### (i) Impairment excluding deferred tax assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### (j) Taxation

The Company is resident in the UK for tax purposes. The tax credit/expense represents the sum of current tax and deferred tax.

###### *Current taxation*

Current tax is based on the taxable profit or loss for the period and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Taxable profit can differ from the net profit as reported in the income statement because it may exclude items of income or expense that are taxable or deductible in other periods and it may further exclude items that are never taxable or deductible.

Consideration receivable or payable in respect of losses surrendered or claimed by way of group relief is dealt with in the income statement.

###### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been substantively enacted by the balance sheet date.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 1. Principal accounting policies (continued)

##### (k) Financial Guarantees

The Company raises debt in external debt markets through the issuance of secured bonds and issue of loans. The Company, Thames Water Utilities Holdings Limited, TWUL, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

#### 2. Finance income

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Interest receivable on other loans	247.3	250.2
Exchange movements on foreign currency debt	1.2	85.5
Fair value through profit and loss gain	-	8.6
	<b>248.5</b>	<b>324.3</b>

The Company's income and results arise solely in the United Kingdom and are attributable to one principal activity of the Company, being the raising of finance and subsequent lending of the debt to TWUL. Consequently no operating segments note has been prepared.

#### 3. Auditor's remuneration

The auditor's remuneration of £13,528 (2014: £13,198) was borne by Thames Water Limited (2014: borne by Thames Water Limited). No other fees were payable to KPMG LLP in respect of this Company in this year (2014: £nil).

#### 4. Staff numbers and costs

The Company has no employees (2014: nil).

No director received any remuneration in respect of their services to the Company (2014: £nil). There are no retirement benefits accruing (2014: £nil).

#### 5. Finance expenses

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
Interest payable on other loans	208.4	203.0
Fair value through profit and loss expense	79.7	-
Interest expense: RPI indexation	26.3	37.9
	<b>314.4</b>	<b>240.9</b>



## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 6. Taxation

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
<b>Current tax:</b>		
Amounts payable in respect of group relief	1.6	1.1
<b>Deferred tax:</b>		
Origination and reversal of timing differences (note 7)	(14.7)	18.1
Impact on deferred tax asset of tax rate change (note 7)	-	2.9
<b>Tax (credit)/ charge on loss/profit on ordinary activities</b>	<b>(13.1)</b>	<b>22.1</b>

The tax assessed for the period is lower (2014: higher) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
(Loss)/profit on ordinary activities before tax	(65.9)	83.4
Corporation tax on (loss)/profit on ordinary activities at 21% (2014: 23%)	(13.8)	19.2
Non-taxable income/disallowable costs (fair value through profit and loss on financial instruments)	15.4	(18.1)
Other timing differences	(14.7)	18.1
Reduction in tax rate on deferred tax balances	-	2.9
<b>Total tax (credit)/ charge for year</b>	<b>(13.1)</b>	<b>22.1</b>

#### Factors affecting the future tax rate

A reduction in the UK corporation tax rate from 21% to 20%, effective from 1 April 2015 was substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 March 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

#### 7. Deferred tax asset

The deferred tax asset relates to the cumulative fair value loss as detailed below:

	As at 31 March 2015 £m	As at 31 March 2014 £m
At the beginning of the year	19.4	40.4
Amounts provided during the year on fair value	14.7	(18.1)
Impact on deferred tax asset of tax rate change	-	(2.9)
<b>At the end of the year</b>	<b>34.1</b>	<b>19.4</b>

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 8. Other financial assets

	As at 31 March 2015 £m	As at 31 March 2014 £m
Interest receivable – internal	137.7	114.4
Other current receivables	1.0	1.3
	<b>138.7</b>	<b>115.7</b>

Internal interest receivable represents cumulative interest earned on financing proceeds that have been lent on to TWUL. There are no amounts past their due by dates. As these assets relate to inter-company debt owed by a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are considered to be impaired.

The fair values of the financial assets approximate their carrying value. All loans and receivables are held at amortised cost.

#### 9. Other financial liabilities

	As at 31 March 2015 £m	As at 31 March 2014 £m
Interest payable	111.9	98.9
Group relief creditor	2.8	1.1
Other payables	1.0	1.4
Inter-company payables	0.9	0.3
	<b>116.6</b>	<b>99.7</b>

All amounts are measured at amortised cost. The carrying amounts of interest, intercompany and other payables approximate to their fair value.

#### 10. Interest-bearing loans and borrowings

	As at 31 March 2015 £m	As at 31 March 2014 £m
<b>Current liabilities:</b>		
Borrowings	-	93.8
<b>Non-current liabilities:</b>		
Borrowings	5,250.0	4,868.5
	<b>5,250.0</b>	<b>4,760.3</b>

Debt issued by the Company matures between 2016 and 2062 (2014: due between 2015 and 2062). All net proceeds were loaned to TWUL at an additional margin of 10 basis points.

Thames Water Utilities Holdings Limited, TWUL, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds.

The bonds are held at amortised cost.

During the financial year ended 31 March 2015 the Company has issued debt of £483.5m and repaid debt of £119.6m (2014: no debt was issued or repaid).

# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 11. Financial instruments

	As at 31 March 2015 £m	As at 31 March 2014 £m
€500m Euro 3.250% fixed rate bond due 2016 (a)	361.4	413.4
£550m 5.375% class B Fixed rate bond due 2025 (b)	547.1	547.5
£300m 5.750% class B Fixed rate bond due 2030 (b)	296.9	297.2
£300m 4.375% fixed rate bond due 2034 (b)	294.9	295.0
€113m 2.300% CPI IL bond due 2022 (a), (c)	85.1	100.8
20bn Yen 3.280% fixed rate bond due 2038 (b)	112.3	118.9
£50m 3.853% index linked bond due 2040 (d)	58.6	58.3
£500m 5.500% fixed rate bond due 2041	488.9	489.5
£50m 1.980% index linked bond due 2042 (d)	61.4	61.0
£55m 2.091% index linked bond due 2042 (d), (b)	65.6	65.0
£40m 1.974% Index linked bond due 2045 (d), (b)	45.5	45.1
£300m 4.825% fixed rate bond due 2046 (b)	292.8	293.0
£100m 1.846% index linked bond due 2047 (d)	122.9	122.1
£200m 1.819% index linked bond due 2049 (d), (b)	245.2	243.6
£200m 1.771% index linked bond due 2057 (d), (b)	245.2	243.6
£400m 7.241% fixed rate bond due 2058*	399.0	399.0
£350m 1.760% index linked bond due 2062 (d), (b)	429.2	428.2
\$156m FRN due 2015	-	93.8
\$150m 4.890% class B private placement due 2019 (a), (b)	99.9	88.8
\$150m 3.870% private placement due 2022 (a)	101.1	90.2
\$250m 4.020% private placement due 2024 (a)	134.7	120.2
\$250m 4.220% private placement due 2027 (a)	168.4	150.3
£500m 4.0% fixed rate bond due 2025 (b)	493.8	-
£100m floating rate loan due 2060 (e), (f), (g)	100.0	-
<b>Total interest bearing loans and other borrowings</b>	<b>5,250.0</b>	<b>4,780.3</b>
Less amounts included within current liabilities	-	(93.8)
<b>Interest bearing loans and other borrowings – non-current liabilities</b>	<b>5,250.0</b>	<b>4,686.5</b>

\* £400m Class A bond issued with a final maturity date of 9 April 2058 with a fixed coupon of 7.241% until 9 April 2018. If at this date interest rates have risen, the bond will be "put" at par by investors and redeemed by the Company. Should interest rates have fallen, the bond will be called by the Company and either re-marketed for the remaining 40-year period at the underlying PCR rate (4.572%) plus the prevailing credit spread or the Company will settle related derivative contracts with bank counterparties and redeem the bond at par.

(a) The Company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US Dollar and Euro loans.

(b) These loans are shown net of issue costs.

(c) The Company has entered into swap agreements that convert this debt into index-linked debt.

(d) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index (RPI).

(e) The Company has entered into an index-linked swap, in relation to this debt.

(f) The index-linked swap associated with this debt has accretion pay downs at five year intervals.

(g) This is an intercompany loan due to Thames Water Utilities Limited, an intermediate parent company.



## **Thames Water Utilities Cayman Finance Limited**

### **Notes to the financial statements (continued)**

#### **11. Financial instruments (continued)**

##### **Funding and Treasury Policy**

The Company's debt arises from the issuance of secured bonds. The Group's policy is to maintain a broad portfolio of debt, diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures and maintain liquidity. The management of interest rate risk, inflation risk and foreign exchange risk includes the use of derivative financial instruments.

The treasury function is managed as a cost centre, not a profit centre. No material open or speculative positions are taken and the operation of the treasury function is governed by specific policies and procedures that set out specific guidelines for the management of liquidity, credit and market risks associated with the financing activities of the Group. Treasury policy and procedures are incorporated within the financial control procedures of the Group.

The Company's funding policy is in accordance with that of its ultimate parent company, Kemble Water Holdings Limited, see note 17. The Group's treasury operations are managed centrally, in the UK, by a specialist team, which operates with delegated authority of, and under policies approved by, the Board of Directors. Therefore, risks are managed on a Group wide basis.

The primary financial instruments are mainly bonds that are traded on a public market. Fair values for these have been determined by using the closing quoted prices from Bloomberg at year end. Mark-to-market techniques involving discounting expected future cash flows at prevailing interest and exchange rates are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments that are not quoted on a public market. More information on the techniques used to determine fair values is provided below. Due to their short term nature the fair values of interest receivables, interest payables and cash are estimated to approximate their carrying values.

##### **Financial risk management**

The Company's exposure to currency or interest rate risk is managed by matching financial assets to the liabilities of the Company, so that economic exposure of cash flows to interest or exchange rates is minimised. The extent to which the Company's operations expose it to a variety of financial risks including the effects of changes in debt market prices and liquidity risk is detailed below.

##### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by raising funds in the capital markets and ensuring that diverse debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities.

At the year end, the Company had undrawn committed facilities of £750m (2014: £750m). These facilities are maintained to ensure liquidity and the continuation of the TWUL capital investment programme. In addition the Company has access to £450m (2014: £450m) of liquidity facilities of which £320m (2014: £320m) is to finance TWUL's debt service costs and £130m (2014: £130m) to finance TWUL's operating and maintenance costs. These facilities address the risk of TWUL being in default of its debt service obligations and having insufficient liquidity. All facilities are undrawn at 31 March 2015 (2014: £nil).

Concentrations of liquidity risk may arise if large cash flows are concentrated within particular periods. The Company manages liquidity risk on long-term borrowings by maintaining a varied maturity profile with a cap on the level of debt maturing in any one calendar year, therefore minimising refinancing risk. The Company has a £10bn (2014: £10bn) secured bond programme, which provides the Company with access to the capital markets in a range of currencies and maturities.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 11. Financial instruments (continued)

##### Liquidity risk (continued)

The maturity profile of the interest-bearing loans and borrowings disclosed in the statement of financial position are given below. The bonds are repayable between 2016 and 2062.

##### Maturities

	As at 31 March 2015 £m	As at 31 March 2014 £m
- Within one year	-	93.8
- Between one and two years	361.4	-
- Between two and three years	-	413.3
- Between three and four years	99.8	-
- Between four and five years	-	88.6
- After more than five years	4,788.8	4,164.6
<b>Total</b>	<b>5,250.0</b>	<b>4,760.3</b>

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis, which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

	As at 31 March 2015 £m	As at 31 March 2014 £m
Loans (secured)		
- Within one year	(209.9)	(288.4)
- Between one and two years	(571.7)	(194.7)
- Between two and three years	(223.4)	(609.1)
- Between three and four years	(319.9)	(183.3)
- Between four and five years	(215.8)	(674.2)
- After more than five years	(11,908.4)	(9,757.7)
<b>Total</b>	<b>(13,449.1)</b>	<b>(11,707.4)</b>

The maturity profile of the Company's financial derivatives (which include interest rate and foreign exchange swaps), based on undiscounted cash flows, is as follows:

	As at 31 March 2015 £m	As at 31 March 2014 £m
Derivatives		
- Within one year	(4.4)	(29.6)
- Between one and two years	(81.1)	(3.8)
- Between two and three years	(0.2)	(28.6)
- Between three and four years	4.3	(1.3)
- Between four and five years	(12.9)	(7.7)
- After more than five years	(248.5)	(141.5)
<b>Total</b>	<b>(342.8)</b>	<b>(212.5)</b>



## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 11. Financial instruments (continued)

##### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from TWUL and cash flows receivable from counterparties to the derivative financial instruments.

Under the terms of the Company's risk management policy, derivative counterparties have to meet minimum short term credit rating criteria assigned by either Moody's or Standard & Poor's. Counterparty risk is monitored on a daily basis in accordance with treasury policies and procedures. There is also a mechanism for the counterparty to post collateral when amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria. At 31 March 2015 the Company held no (2014: £nil) collateral cash.

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £5,464.8m (2014: £4,962.3m), being the total of the carrying amount of financial assets shown below.

	As at 31 March 2015 £m	As at 31 March 2014 £m
Interest receivable – internal (note 8)	137.7	114.4
Loans receivable from group entities (note 15)	5,327.1	4,847.9
	<b>5,464.8</b>	<b>4,962.3</b>

##### Credit quality of financial assets and impairment losses

The Company is a financing subsidiary of TWUL. Its principal activity is to ensure availability of funds in the capital markets and to lend all the proceeds to TWUL. The above assets relate to intercompany debt owed by TWUL, which has a high credit rating and therefore the risk exposure is deemed immaterial, and no amounts are impaired.

There are no amounts past their due by dates.

##### Capital risk

Capital risk relates to whether the Company is adequately capitalised and financially solvent.

The Company is part of a securitisation group of companies. Capital risk is managed by the issuance of secured bonds with a diverse maturity profile. These borrowings are loaned internally to TWUL. Borrowing facilities are managed across the securitised group in order to meet anticipated funding requirements of TWUL. The debt profile of the securitisation group is maintained to ensure that at least 85% of the interest cost within the securitisation group is based on either fixed or RPI-linked interest rates.

The securitisation group is required to comply with certain financial and non-financial covenants. The financial covenants include an interest cover ratio and a Regulatory Capital Value (RCV) to net debt ratio.

The securitisation group complied with these ratios throughout the financial year. Further details of these covenants are shown in the TWUL financial statements which are available at the address shown in note 17.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 11. Financial instruments (continued)

##### Market Risk

Market risk is the risk that changes in market variables such as inflation rates, interest rates and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments.

##### *Inflation risk*

The debt issued by the Company includes RPI linked bonds and swaps and these instruments are exposed to movements in the RPI index. The Company subsequently lends all the proceeds of these instruments to TWUL, a regulated water company with largely RPI linked revenues under the same terms. Therefore the Company's index linked borrowings form an economic hedge as the assets and liabilities are offset. The underlying principal and interest receivable from TWUL will be offset by the principal and interest liability due to the external lender.

The Company also uses derivatives to manage inflation risk on non-index linked borrowings. At the balance sheet date the derivatives are measured at fair value, whereas the underlying debt is measured at amortised cost. The fair value of the derivatives is predisposed to the inflation rates used in the valuation at balance sheet date. Movements in the valuation of derivatives are reflected in the income statement. The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2015 and the comparative period 31 March 2014. This analysis assumes that all other variables, in particular exchange rates, remain constant.

##### *Inflation risk sensitivity analysis*

Impact on profits - Increase/(decrease)	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
1% increase in inflation rate	(146.7)	(114.2)
1% decrease in inflation rate	99.4	78.4

##### *Interest rate risk*

Interest rate risk arises on interest-bearing financial instruments. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows, thereby protecting future cash flows against interest rate movements.

The Company ultimately passes on borrowed proceeds to TWUL after managing the market risk. The terms of the synthetic bonds are replicated through intercompany loan agreements. TWUL provides funds for the Company to repay its external debt. Therefore movements in interest rates on the Company's liabilities are offset by movements in the receivable due from TWUL. The impact on the profit or loss is limited to the margin of 10 basis points that is charged to TWUL.

Where the Company has floating rate instruments, the Company enters interest rate swaps which provide certainty over future cash flows when the instruments are held to maturity. The fair value of these derivatives is exposed to changes in interest rates. The Company does not perform hedge accounting and the movement in the fair value of these derivatives is recognised in the statement of comprehensive income.



# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 11. Financial instruments (continued)

#### Market Risk (continued)

##### Interest rate risk sensitivity analysis

The table below summarises the impact of changes in the fair value of interest rate swaps on pre-tax profits of a 1% increase or decrease in interest rates at 31 March 2015. This analysis assumes that all other variables remain constant.

Impact on profits - Increase/(decrease)	Year ended 31 March 2015 £'m	Year ended 31 March 2014 £'m
1% increase in interest rate	112.7	103.1
1% decrease in interest rate	(146.7)	(131.8)

##### Foreign exchange risk

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses a range of instruments to provide an economic hedge for such exposures. All hedges are undertaken for commercial reasons with the objective of eliminating the impact of exchange rate fluctuations on future cash flows. In all cases the impact of foreign exchange movements on cash flows are fully hedged, however the differing accounting treatment between the debt instrument and the associated currency swap give rise to charges or gains in the income statement. The majority of foreign currency denominated debt is lent on to TWUL in GBP.

The Company does not perform hedge accounting, as a consequence at each reporting date the financial instruments that are denominated in foreign currency are revalued at the applicable exchange rate and any gains or losses are recognised in the income statement. The movement in the fair value of the derivative instruments related to foreign exchange risk is also recognised in the income statement.

##### Foreign exchange risk sensitivity analysis

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2015. This analysis assumes that all other variables in the valuation remain constant.

Impact on profits - Increase/(decrease)	Year ended 31 March 2015 £m	Year ended 31 March 2014 £m
10% strengthening of GBP	(17.6)	(20.3)
10% weakening of GBP	(9.1)	0.9

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 11. Financial instruments (continued)

##### Market Risk (continued)

Below is the effective interest rate and currency rate risk profile of the debt held by the company after taking into account the derivative financial instruments used to manage market risk.

	Total at fixed rates		Total at RPI linked rates		Total book value of debt plus fair value of the derivatives	
	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m
Interest bearing loans and borrowings						
Net of corresponding swap assets						
- £ Sterling	3,731.1	3,256.5	1,493.7	1,573.7	5,224.8	4,830.2
- Other	112.3	116.9	-	(5.3)	112.3	111.6
<b>Total</b>	<b>3,843.4</b>	<b>3,373.4</b>	<b>1,493.7</b>	<b>1,568.4</b>	<b>5,337.1</b>	<b>4,941.8</b>

The weighted average interest rates of the debt held by the Company and the period until maturity for which the rate is fixed are given below:

	Weighted average interest rate for fixed rate and RPI linked debt		Weighted average period until maturity for which rate is fixed for fixed rate and RPI linked debt	
	2015	2014	2015	2014
	%	%	Years	Years
Interest bearing loans and borrowings				
- £ Sterling	4.1	4.1	18.6	25.3
- Other	3.3	3.3	23.4	24.4
	<b>4.1</b>	<b>4.1</b>	<b>18.7</b>	<b>25.3</b>

##### Fair values

The fair values of financial assets and liabilities are measured as prescribed by *IFRS 13 'Fair Value Measurement'*. Fair values are determined according to the following hierarchy:

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The fair value of interest rate swaps is based on bank quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. IFRS 13 requires companies to adjust the valuation of a financial instrument to take account of variations in credit. The Company has therefore applied credit value adjustments and debt value adjustments to derivatives where appropriate.

## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 11. Financial instruments (continued)

##### Fair Values (continued)

The tables below set out a comparison of the carrying and fair values of the Company's financial assets and financial liabilities. During the current year and the prior year the Company did not enter any new derivative contracts.

The effects of revaluing foreign currency borrowings at closing rates that are measured at amortised cost are included in the carrying values.

##### Financial Assets

	Carrying value As at 31 March 2015 £m	Carrying value As at 31 March 2014 £m	Fair value As at 31 March 2015 £m	Fair value As at 31 March 2014 £m
<b>Primary financial instruments</b>				
Assets measured at amortised cost				
- Loans receivable from group entities	5,327.1	4,847.9	6,527.2	4,985.4
- Interest receivables	137.7	114.4	137.7	114.4
Assets measured at fair value				
- Derivative Financial Assets	16.5	12.7	16.5	12.7
<b>Total</b>	<b>5,481.3</b>	<b>4,975.0</b>	<b>6,681.4</b>	<b>5,112.5</b>

##### Financial Liabilities

	Carrying value As at 31 March 2015 £m	Carrying value As at 31 March 2014 £m	Fair value As at 31 March 2015 £m	Fair value As at 31 March 2014 £m
<b>Primary financial instruments</b>				
Liabilities measured at amortised cost				
- Interest-bearing loans and borrowings	5,250.0	4,760.3	6,025.5	4,799.8
- Interest payables	111.9	96.9	111.9	96.9
Liabilities measured at fair value				
- Derivative Financial Liabilities	265.2	198.3	265.2	198.3
<b>Total</b>	<b>5,627.1</b>	<b>5,055.5</b>	<b>6,402.6</b>	<b>5,095.0</b>

The notional value of the derivative assets at the year end is £283.8m (2014: £93.4m) and the derivative liabilities is £946.6m (2014: £1,264.0m). The nominal value of the total debt is £5,055.7m (2014: £4,508.1m)



# Thames Water Utilities Cayman Finance Limited

## Notes to the financial statements (continued)

### 11. Financial instruments (continued)

#### Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

	31 March 2015				31 March 2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets designated at fair value through profit and loss	-	16.5	-	16.5	-	12.7	-	12.7
Financial liabilities designated at fair value through profit and loss	-	265.2	-	265.2	-	198.3	-	198.3
Net financial instruments designated as fair value through profit and loss	-	248.7	-	248.7	-	185.6	-	185.6

At 31 March 2015 the Company did not have any assets and liabilities reported in the statement of financial position that would be classified at level 1 or level 3 of the fair value hierarchy.

### 12. Share capital

	As at 31 March 2015 £	As at 31 March 2014 £
Allotted, called-up and fully paid 1 ordinary shares of £1 each	1	1

### 13. Retained losses

	As at 31 March 2015 £m	As at 31 March 2014 £m
Retained losses at beginning of the year	(62.6)	(123.9)
Loss for the year	(52.8)	61.3
<b>Retained losses at the end of the year</b>	<b>(115.4)</b>	<b>(62.6)</b>

### 14. Reconciliation of movements in total deficit

	As at 31 March 2015 £m	As at 31 March 2014 £m
Opening shareholder's deficit	(62.6)	(123.9)
Loss for the year	(52.8)	61.3
<b>Closing shareholder's deficit</b>	<b>(115.4)</b>	<b>(62.6)</b>



## Thames Water Utilities Cayman Finance Limited

### Notes to the financial statements (continued)

#### 15. Related Parties

##### *Transactions with group entities*

The Company was established to make certain financing arrangements on behalf of TWUL. The major transactions of the Company are the raising of finance and subsequent lending of the debt to TWUL on the same terms and conditions except interest, where a margin is charged on the issued bonds. Loans receivable from group entities represent cumulative financing proceeds that have been lent on to TWUL.

There are no amounts past their due by dates.

As these assets relate to inter-company debt owed by a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are impaired. All loans and receivables are held at amortised cost.

Interest receivable from TWUL during the year was £247.3m (2014: £250.2m).

As a result of the above transactions the loans receivable from group entities at 31 March are as follows:

	31 March 2015 £m	31 March 2014 £m
<b>Non-current assets</b>		
Thames Water Utilities Limited	5,327.1	4,731.1
<b>Current assets</b>		
Thames Water Utilities Limited	-	116.8
<b>Total loans receivable from group entities</b>	<b>5,327.1</b>	<b>4,847.9</b>

##### *Transactions with key management personnel*

During the year under review, none of the directors had any contracts with the Company or any other body corporate other than their contracts of service.

#### 16. Guarantees

The Company, Thames Water Utilities Holdings Limited, Thames Water Utilities Limited, Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Holdings Limited are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2015 was £10.2bn (2014: £9.8bn).

#### 17. Ultimate parent and controlling party

The immediate parent undertaking of the Company is Thames Water Utilities Cayman Finance Holdings Limited, a company incorporated in the Cayman Islands.

Kemble Water Finance Limited, a company incorporated in the United Kingdom, is the intermediate parent company and the smallest group to consolidate these voluntary financial statements.

The directors consider Kemble Water Holdings Limited, a company incorporated in the United Kingdom, to be the ultimate parent and controlling party and the largest group to consolidate these voluntary financial statements.

Copies of the financial statements of all of the above companies may be obtained from The Company Secretarial Department, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

## 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 AMP5 Period.

“2014 Final Determination” means the final price determination made by Ofwat in respect of the AMP6 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.

“Acceptance” means the date on which the IP Liability is recognised in TWUL’s accounts which TWUL, on the advice of its accountants, currently expects to be between Handover and System Acceptance.

“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 and which is substantially in the form set out in Schedule 1 (*Form of Accession Memorandum*) to the STID; (b), with respect to the Bond Trust Deed, a memorandum in substantially the form set out in (i) Schedule 5 (*Form of Accession Memorandum – Financial Guarantor*) to the Bond Trust Deed pursuant to which a Financial Guarantor accedes to the Bond Trust Deed; or (ii) Schedule 6 (*Form of Accession Memorandum - Guarantor*) to the Bond Trust Deed pursuant to which 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 (*Form of Accession Memorandum*) to the Agency Agreement pursuant to which a Guarantor accedes to the Agency Agreement; or (d) with respect to the Tax Deed of Covenant, a memorandum in substantially the form set out in the Schedule (*Accession Memorandum*) 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 Account Bank, the Standstill Cash Manager and the Security Trustee.

“Additional Conformed Class A Adjusted ICR” means, in respect of a Test Period, the ratio of Conformed Net Cash Flow less the aggregate of Depreciation during such Test Period to Conformed Class A Debt Interest during such Test Period.

“Additional Conformed Class A Average Adjusted ICR” means the sum of the ratios of Conformed Net Cash Flow less the aggregate of Depreciation during such Test Period to Conformed Class A Debt Interest, for each of the Test Periods comprised in a Rolling Average Period, divided by three.

“Additional Conformed Senior Adjusted ICR” means, in respect of a Test Period, the ratio of Conformed Net Cash Flow less the aggregate of Depreciation during such Test Period to Conformed Senior Debt Interest during such Test Period.

“Additional Conformed Senior Average Adjusted ICR” means the sum of the ratios of Conformed Net Cash Flow less the aggregate of Depreciation to Conformed Senior Debt Interest, for each of the Test Periods comprised in a Rolling Average Period, divided by three.

“Additional Secured Creditor” means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the provisions of Clause 2 (*Accession*) of the STID (provided that, for the avoidance of doubt, any Secondary Market Guarantor acceding to the STID pursuant to Clause 2.5 (*Accession of Secondary Market Guarantor*) of the STID and any Subordinated Creditor acceding to the STID pursuant to Clause 2.6 (*Accession of Subordinated Creditors*) of the STID will not constitute a Secured Creditor).

“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*) to the CTA or, where paragraph 5 of Part A of Schedule 12 (*Provisions relating to Finance Leases*) to the CTA applies, as calculated pursuant to such paragraph 5.

“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 9 December 2011 under which, amongst 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, any Paying Agent or any other agent appointed by the Issuer pursuant to the Agency Agreement or Calculation 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;

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

“AMP7” means the asset management plan to be prepared for the AMP7 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;

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

“AMP7 Period” means the AMP Period commencing on 1 April 2020.

“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).

“Annual Return” means the detailed annual return of regulatory information submitted to Ofwat by all undertakers.

“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” means the appointed business of a “relevant undertaker” (as that term is defined by Section 219 of the WIA).

“Assets” means the sewerage assets to be constructed and maintained by the IP in accordance with the Project Specification Notice.

“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 LLP 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 or TWUL or TWUF 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 are parties to, or have acceded to, the STID and the CTA, and includes, without limitation, the Liquidity Facilities, the Initial Credit Facility Agreement, the Initial Issuer/TWUL Loan Agreement, the Existing Authorised Credit Facilities, the Initial TWUF/TWUL Loan Agreement, the Bond Trust Deed, the Secured TWUF Bond Trust Deed, the Bonds, the Secured TWUF Bonds, the Existing Finance Leases, 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 (excluding, however, the Dealership Agreement and the Common 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;
- (d) any money market funds or equivalent investments which have a rating of at least A- by S&P and A3 by Moody’s; or
- (e) any amounts on deposit in accounts with the Account Bank specifically permitted by the Finance Documents (but not any general investments with the Account Bank).

“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.

“Base Cash Flows” means the annual cash flows of the amount of costs netted off against the amount of receipts and savings in respect of each Relevant Change of Circumstance (as defined in the Licence), Notified Item and relevant disposal of land.

“Base Currency” means pounds sterling.

“Bearer Bonds” means those of the Bonds which are in bearer form.

“Bond Trust Deed” means the bond trust deed dated the Initial Issue Date between, among others, the Issuer and the Bond Trustee, as amended and restated from time to time under which the 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 Royal Bank of Canada 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 US 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 (*Form of Calculation Agency Agreement*) to 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 Expenditure Facility” means the revolving facility made available on the Initial Issue Date to the Issuer by the Initial Credit Facility Provider consisting of a £550 million tranche to be on-lent by the Issuer to TWUL to meet, until the third anniversary of the Initial Issue Date, the capital expenditure and general corporate purposes of TWUL.

“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 (i) during and after a Standstill Period (except where a Standstill Period is terminated pursuant to Clause 13.4.1(c) (*Termination of Standstill*) of the STID), the Standstill Cash Manager, and (ii) at all other times TWUL.

“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 interim determination 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, “CCD” shall be TWUL’s good faith estimate of such expenditure for such Test Period.

“CCWater” means the Consumer Council for Water.

“CIS” means capital expenditure (capex) incentive scheme.

“CJEU” means The Court of Justice of the European Union.

“Class” means, (i) in relation to the Bonds, 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; and (ii) in relation to the Secured TWUF Bonds, each class of Secured TWUF Bonds listed in the definition of “Secured TWUF Bonds”.

“Class A Adjusted ICR” means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest during such Test Period.

“Class A Average Adjusted ICR” means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

“Class A Bonds” means the Class A Wrapped Bonds and the Class A Unwrapped Bonds.

“Class A Debt” means any financial accommodation that is for the purposes of the STID to be treated as Class A Debt and includes:

- (a) as at the Initial Issue Date all debt outstanding under:
  - (i) the Class A Unwrapped Bonds (including any Class A FG Covered Bonds) issued by the Issuer on the Initial Issue Date;
  - (ii) the Secured TWUF Bonds (including any Secured TWUF FG Covered Bonds) issued by TWUF;
  - (iii) the Initial Credit Facility;
  - (iv) the Existing Authorised Credit Facilities;
  - (v) the Existing Finance Leases;
  - (vi) the Existing Hedging Agreements;
  - (vii) the DSR Liquidity Facilities; and
  - (viii) the O&M Reserve Facility;
- (b) following the Initial Issue Date all debt outstanding under paragraph (a) above and:
  - (i) any Legacy Bonds or JPY 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;
- (v) each Authorised Credit Facility designated as Class A Debt; and
- (vi) any Relevant Securities 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 the Existing Authorised Credit Facilities, the Existing Authorised Credit Provider;
- (g) in respect of and Existing Finance Leases, the relevant Finance Lessor; and
- (h) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (g) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum as the Class A DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

“Class A Debt Interest” means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

- (a) all interest and recurring fees or commissions paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer’s and/or TWUF’s and/or TWUL’s obligations under or in connection with all Class A Debt and any Permitted Financial Indebtedness which is unsecured (including all Unsecured TWUF Bond Debt);
- (b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Class A Wrapped Bonds; and
- (c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer’s and/or TWUF’s and/or TWUL’s obligations under and in connection with all Class A Debt,

in each case during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force) (excluding all indexation of principal, amortisation of the costs of issue of any Class A



Debt or Unsecured TWUF Bond Debt within such Test Period and all other costs incurred in connection with the raising of such Class A Debt or Unsecured TWUF Bond Debt) less all interest received or in respect of forward-looking ratios receivable by any member of the TWU Financing Group from a third party during such period (excluding any interest received or receivable by TWUL under any Intra-Group Loan or any loan or other forms of Financial Indebtedness to Associates).

“Class A Debt 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 in accordance with Clause 2.5 (*Accession of Secondary Market Guarantor*) of the STID).

“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 guarantee from Financial Guarantee.

“Clearstream, Luxembourg” means Clearstream Banking, *société anonyme*.

“CMA” means the UK Competition and Markets Authority, being the successor body of the Competition Commission from 1 April 2014.

“Co-Arrangers” means Barclays Bank PLC and Macquarie Bank Limited, London Branch, the co-lead arrangers of the Programme.

“Commencement Date” means the date on which the IP is awarded the IP Project Licence.

“Common Agreements” means any Security Document, the Bond Trust Deed, the Common Terms Agreement, 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 as amended and restated from time to time between the parties to the agreement.

“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” means the United Kingdom Competition Commission.

“Compliance Certificate” means a certificate, substantially in the form of Schedule 9 (*Form of Compliance Certificate*) to 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.

“Conformed Class A Adjusted ICR” means, in respect of a Test Period, the ratio of Conformed Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Conformed Class A Debt Interest during such Test Period.

“Conformed Class A Average Adjusted ICR” means the sum of the ratios of Conformed Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Conformed Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

“Conformed 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) (which, for the avoidance of doubt, does not in any case include any Financial Indebtedness in respect of the IP Liability);
- (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 (which, for the avoidance of doubt, are not applicable to any Financial Indebtedness in respect of the IP Liability) 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).

“Conformed Class A ICR” means the ratio of Conformed Net Cash Flow for each Test Period to Conformed Class A Debt Interest for each of the same Test Periods.

“Conformed 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 (such net cash flow to take into account both the IP Related Revenue and IP Related Payments); (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 (such net cash flow to take into account both the IP Related Revenue and IP Related Payments); (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 (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 less any anticipated net cash flow from operating activities of its business other than its Appointed Business (for the avoidance of doubt, the collection of the IP Related Revenue and the IP Related Payments shall be Appointed Business for these purposes) and after adding back 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) 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.

“Conformed Senior Adjusted ICR” means, in respect of a Test Period, the ratio of Conformed Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Conformed Senior Debt Interest during such Test Period.

“Conformed Senior Average Adjusted ICR” means the sum of the ratios of Conformed Net Cash Flow less the aggregate of CCD and IRC to Conformed Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

“Conformed 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 TWUF's and/or TWUL's obligations under or in connection with all Senior Debt excluding any Financial Indebtedness in respect of the IP Liability and any Permitted Financial Indebtedness which is unsecured (including all Unsecured TWUF Bond Debt) (other than any Intra-Group Loans) (which, for the avoidance of doubt, does not in any case include any Financial Indebtedness in respect of the IP Liability);
- (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 (which, for the avoidance of doubt, are not applicable to any Financial Indebtedness in respect of the IP Liability) paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's, TWUF's and/or 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, 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).

“Conformed 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 any Financial Indebtedness in respect of the IP Liability) and the nominal amount of any Financial Indebtedness pursuant to paragraphs (e) and (f) (which, for the avoidance of doubt, does not include any Financial Indebtedness in respect of the IP Liability) 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).

“Conformed Senior RAR” means, on any Calculation Date, the ratio of Conformed 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.

“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.

“Contracting Secured Creditor” means a Secured Creditor (other than the Security Trustee) party to an Authorised Credit Facility.

“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 Bearer Bond, such coupon being:

- (a) if appertaining to a Fixed Rate Bond, a Floating Rate Bond or an Indexed Bond, in the form or substantially in the form set out in Part E (*Form of Coupon*) of Schedule 2 (*Forms of Global and Definitive Bearer Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed or in such other form, having regard to the terms of issue of the Bonds of the relevant Sub-Tranche, as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s); or
- (b) if appertaining to a Definitive Bearer Bond which is neither a Fixed Rate Bond nor a Floating Rate Bond nor an Indexed Bond, in such form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s),

(c) 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.

“CSO” means combined sewerage overflows.

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

“CRD IV” means the Directive 2013/36/EU of the European Parliament and of the Council.

“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 2 September 2011 as amended, restated and supplemented or replaced from time to time 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.

“CRR” means the Regulation (EU) No 575/2013 of the European Parliament and of the Council.

“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.

“DCO” or the “Development Consent Order” means the Thames Water Utilities Limited (Thames Tideway Tunnel) Order 2014 (SI 2384/2014) as may be amended from time to time.

“Dealers” means Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, London Branch, HSBC Bank plc, J.P. Morgan Securities plc, Lloyds Bank plc, Mitsubishi UFJ Securities International plc, Morgan Stanley & Co. International plc, National Australia Bank Limited (ABN 12 004 044 937), 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, 18 June 2012 and as further amended and restated on or around the date of this Prospectus 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 Bearer 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 Part C (*Form of Definitive Bearer Bond*) of Schedule 2 (*Forms of Global and Definitive Bearer Bonds, Receipts, Coupons and Talons*) 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.

“Definitive Registered Bond” 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 Part B (*Form of Definitive Registered Bond*) of Schedule 3 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.

“Defra” means the United Kingdom Department for Environment, Food and Rural Affairs.

“Depreciation” means, in relation to any period of time, the “total RCV run-off” (or other term(s) used to mean the depreciation charges applicable to the RCV) in respect of such period (interpolated as necessary for Out-turn Inflation) as last determined and notified to TWUL by Ofwat at the most recent Periodic Review or other procedure through which from time to time Ofwat may make such determination on an equally definitive basis to that of such a Periodic Review.

“Determination Date” means the date which is seven Business Days prior to each Payment Date or, as the case may be, each Unsecured TWUF Bond Payment Date.

“DETR” means the Department of the Environment, Transport and the Regions which had responsibility for the Environment prior to Defra.

“DIG Directions Request” has the meaning given to such term in Clause 9.6.2 (*DIG Directions Request*) of the STID.

“DIG Proposal” has the meaning given to such term in Clause 9.6.1 (*DIG Directions Request*) of 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.

“Discontinuation Agreement” means the agreement between, among others, the Secretary of State, and the IP of that name dated on or around the Commencement Date.

“Discontinuation Notice” means a notice issued by the Secretary of State in accordance with the Discontinuation Agreement.

“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 one 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 Facility” means a debt service reserve liquidity facility made available under a Liquidity Facility Agreement.

“DSR Liquidity Facility Agreement” means any agreement establishing a DSR Liquidity Facility.

“DSR Liquidity Facility Provider” means the Initial DSR Liquidity Facility Providers or any other lender 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.

“DWT” means the England and Wales Drinking Water Inspectorate.



“EA” or “Environment Agency” means the England and Wales Environment Agency.

“Early Redemption Amount” has the meaning, in relation to a Sub-Class of Bonds, given to such term in the Conditions relating to such Sub-Class of Bonds.

“EIB” means the European Investment Bank.

“EIB Amendment Agreement” means the amendment agreement dated the Initial Issue Date between the Existing Authorised Credit Providers and TWUL relating to the Existing Authorised Credit Facilities.

“EIN Signatories” has the meaning given to such term in Clause 9.13.1 (*Emergency Instruction Procedure*) of the STID.

“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 waste water services which is treated as an emergency under TWUL’s policies, standards and procedures for emergency planning manual.

“Emergency Instruction Notice” has the meaning given to such term in Clause 9.13.1 (*Emergency Instruction Procedure*) of the STID.

“Emergency Instruction Procedure” means an emergency instruction procedure provided for in the STID, 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 (*Entrenched Rights of Class A Debt Providers*) to 8.9 (*Entrenched Rights of the Hedge Counterparties*) (inclusive) of the STID.

“Environmental Approvals” means any environmental permits issued to TWUL by the EA pursuant to the Environmental Permitting (England and Wales) Regulations 2010 for water discharge activities from those CSOs specified in the Operating Techniques.

“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” means 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 (*Events of Default*) to the CTA.

“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 at which calculation of the Equivalent Amount of the Outstanding Principal Amount is required,

and in each case, as notified by the Agent Bank to the Security Trustee.

“Excluded Accounts” means the Issuer’s O&M Reserve Account and Debt Service Reserve Accounts to the extent the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant Liquidity Facility, and each Swap Collateral Account.

“Existing Authorised Credit Facilities” means the following facilities provided to TWUL by the Existing Authorised Credit Provider pursuant to the Existing Authorised Credit Finance Contracts:

- (a) £50,000,000 EIB 6 6.28 per cent. due 2010;
- (b) £45,000,000 EIB 6 5.92 per cent. due 2010;
- (c) £30,000,000 EIB 6 3MLO-0.080 per cent. due 2008;

- (d) £50,000,000 EIB 7 6.58 per cent. due 2010;
- (e) £23,125,000 EIB 7 3MLO-0.143 per cent. due 2009;
- (f) £26,875,000 EIB 7 3MLO-0.063 per cent. due 2009;
- (g) £50,000,000 EIB 8 5.72 per cent. due 2011;
- (h) £50,000,000 EIB 8 3MLO+0.070 per cent. due 2011;
- (i) £150,000,000 EIB (2006) 6MLO+0.235 per cent. due 2017; and
- (j) any other facility provided to TWUL by the Existing Authorised Credit Provider pursuant to any Existing Authorised Credit Finance Contract.

“Existing Authorised Credit Finance Contracts” means:

- (a) the finance contract (FI No.1.7336) between TWUL and the Existing Authorised Credit Provider dated Reading, 3 March 1998, Luxembourg, 16 March 1998 in relation to the Thames Water III Project, as amended by a Letter dated Luxembourg, 16 March 1998 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007 (the “Finance Contract 1.7336”);
- (b) the finance contract (FI No. 20.452) between TWUL and the Existing Authorised Credit Provider dated Reading, 24 January 2000, Luxembourg, 24 January 2000 in relation to the Thames Water IV Project, as amended by a Letter dated Luxembourg, 24 January 2000 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 30 August 2000, Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007 (the “Finance Contract 20.452”);
- (c) the finance contract (FI No. 20.893) between TWUL and the Existing Authorised Credit Provider dated Reading, 20 December 2000, Luxembourg, 21 December 2000 in relation to the Thames Water V Project, as amended by a Letter dated Luxembourg, 21 December 2000 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 26 February 2001, Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007 (the “Finance Contract 20.893”);
- (d) the finance contract (FI No. 23.618) between TWUL and the Existing Authorised Credit Provider dated Reading, 4 October 2006, Luxembourg, 4 October 2006 in relation to the Thames Water and Wastewater (UK) Project, as amended by a Letter dated Luxembourg, 4 October 2006 from the Existing Authorised Credit Provider to TWUL and a Modification to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 8 February 2007 (the “Finance Contract 23.618”); and
- (e) any other finance contract which shall be entered into between the Existing Authorised Credit Provider and TWUL and which shall be agreed between the parties thereto to be designated as an “Existing Authorised Credit Finance Contract”,

in the case of paragraphs (a) to (d), as amended on the Initial Issue Date by the EIB Amendment Agreement;

“Existing Authorised Credit Provider” means European Investment Bank;

“Existing Finance Leases” means the leases between TWUL and each of (i) R.B Leasing (September) Limited, dated 13 December 1994 (the “RBS Existing Finance Lease”), (ii) Cheriton Resources 13 Limited (formerly Abbey National March Leasing (1) Limited), dated 23 July 1991 (as assigned absolutely to SG Leasing (March) Limited

on 2 October 2006 and as assigned absolutely to RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited) on 31 May 2007 (the “First RBSSAF Existing Finance Lease”)) and (iii) Cheriton Resources 13 Limited (formerly Abbey National March Leasing (1) Limited), dated 28 September 1992 (as assigned absolutely to RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited) on 2 October 2006) (the “Second RBSSAF Existing Finance Lease”) and each as amended, supplemented, assigned and novated prior to the Initial Issue Date, and each an “Existing Finance Lease”.

“Existing Finance Lease Terms” means the First RBSSAF Existing Finance Lease Terms, the Second RBSSAF Existing Finance Lease Terms and the RBS Existing Finance Lease Terms.

“Existing Finance Lessors” means R.B. Leasing (September) Limited and RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited).

“Existing Hedge Counterparty” means each of The Royal Bank of Scotland plc, Deutsche Bank AG, London Branch (previously Deutsche Bank AG London), JPMorgan Chase Bank, N.A. and Bayerische Landesbank.

“Existing Hedging Agreements” means:

- (a) the £15,000,000 Interest Rate Hedging Agreement as documented by a 1987 Interest Rate and Currency Exchange Agreement and the corresponding schedule both dated 4 August 1992 and supplemented by the confirmation dated 25 February 1998 between TWUL and National Westminster Bank plc (as amended and restated by an amendment agreement dated the Initial Issue Date to comply with the Hedging Policy at the Initial Issue Date);
- (b) the £50,000,000 Interest Rate Hedging Agreement as documented by a 1992 ISDA Master Agreement and the corresponding schedule both dated 4 February 1998 and supplemented by the confirmation dated 5 February 1998 (as replaced) between TWUL and Bayerische Landesbank, London Branch (as amended and restated by an amendment agreement dated the Initial Issue Date to comply with the Hedging Policy at the Initial Issue Date);
- (c) the JPY 5,000,000,000 Currency Hedging Agreement as documented by a 1992 ISDA Master Agreement and the corresponding schedule both dated 31 July 1995 and supplemented by the confirmation dated 2 August 1999 entered into by TWUL and Deutsche Bank AG (as amended and restated by an amendment agreement dated the Initial Issue Date to comply with the Hedging Policy on the Initial Issue Date);
- (d) the JPY 5,000,000,000 Currency Hedging Agreement as documented by a 1987 Interest Rate and Currency Exchange Agreement and the corresponding schedule both dated 1 April 1992 and supplemented by the confirmation dated 18 May 1999 between TWUL and Morgan Guaranty Trust Company of New York (as amended and restated by an amendment agreement dated on the Initial Issue Date to comply with the Hedging Policy at the Initial Issue Date); and
- (e) the JPY 2,000,000,000 Currency Hedging Agreement as documented by a 1987 Interest Rate and Currency Exchange Agreement and the corresponding schedule both dated 1 April 1992 and supplemented by the confirmation dated 22 April 1998 between TWUL and Morgan Guaranty Trust Company of New York (as amended, novated and restated by an amendment and novation confirmation entered into by, inter alios, the Parent and TWUL on the Initial Issue Date for the purposes of novating the Parent’s rights, interests and obligations in respect of such confirmation to TWUL).

“Existing Non-Compliance” 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" has the meaning, in relation to the Bonds, set out in paragraph 20 of Schedule 4 (*Provisions for Meetings of Bondholders*) to the Bond Trust Deed and, in relation to the Secured TWUF Bonds, set out in Schedule 3 (*Provisions for meetings of Noteholders*) of the Secured TWUF Bond Trust Deeds.

"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) the Existing Authorised Credit Finance Contracts (including the EIB Amendment Agreement);
- (w) the Indemnification Deed;
- (x) any other Authorised Credit Facilities; and
- (y) each agreement or other instrument between TWUL, TWUF or the Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by TWUL, TWUF or the Issuer (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum for such Additional Secured Creditor;

“Finance Lease Documents” means each Finance Lease together with any related or ancillary documentation.

“Finance Leases” means the Existing Finance Leases and any other finance lease entered into by TWUL in respect of plant, machinery, software, computer systems or equipment (the counterparty to which has acceded to the terms of the STID and the CTA and has agreed to be bound by the terms of Part 2 of Schedule 12 (*Provisions relating to Finance Leases*) to the CTA) permitted to be entered into under the terms of the CTA, each a “Finance Lease”.

“Finance Lessors” means the Existing Finance Lessors and any person entering into a Finance Lease with TWUL, as permitted by the CTA and the STID, who accedes to the STID and the CTA as a Finance Lessor (each a “Finance Lessor”);

“Finance Party” means any person providing financial accommodation pursuant to an Authorised Credit Facility including all arrangers, agents and trustees appointed in connection with any such Authorised Credit Facility.

“Financial Guarantee Fee” means any fees and/or premia 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 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 (excluding, for the avoidance of doubt, regulatory accounts) 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) £250,000,000 4.75 per cent. guaranteed notes due 2010;
- (b) £200,000,000 5.05 per cent. guaranteed notes due 2020;
- (c) £225,000,000 6.59 per cent. guaranteed notes due 2021;
- (d) £600,000,000 5.125 per cent. guaranteed notes due 2037;
- (e) £300,000,000 guaranteed RPI-linked notes due 2053;
- (f) £300,000,000 guaranteed RPI-linked notes due 2055; and
- (g) £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 Definitive Registered Bond in the form or substantially in the form set out in Part B (*Form of Definitive Registered Bond*) Schedule 3 to the Bond Trust Deed;

“FSMA” means the Financial Services and Markets Act 2000, as amended.

“FWMA” means the Flood and Water Management Act 2010.

“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 and/or a Registered Global Bond and/or a Regulation S Global Bond and/or a Rule 144A 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 practice 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 in their capacity as Guarantors pursuant to the Security Agreement together with any other entity which accedes to the Security Agreement as a Chargor in accordance with Clause 22.3 (*Further Subsidiaries*) thereof, each in their capacity as a “Guarantor”.

“Handover” means the completion of construction and commission of the Assets and the sewerage assets.

“Hedge Counterparties” means (i) the Existing Hedge Counterparties; and (ii) any counterparty to a Hedging Agreement which is or becomes party to the STID in accordance with the STID and “Hedge Counterparty” means any of such parties.

“Hedging Agreement” means any Treasury Transaction entered or to be entered into by the Issuer and/or TWUL and/or TWUF with Hedge Counterparties in accordance with the Hedging Policy, the counterparties to which have acceded to the terms of the STID and the CTA and agreed to be bound by the terms of paragraphs 9, 10, 11, 19 and 20 of Schedule 7 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA), and references to “Hedging Agreements” shall be construed accordingly.

“Hedging Policy” means the initial hedging policy applicable to TWUL and the Issuer set out in Schedule 7 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA as such hedging policy may be subject to Clause 8.9 (*Entrenched Right of the Hedge Counterparties*) of the STID amended from time to time by an 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.

“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 (*Further Information and Remedial Plan*) of Part 2 (*Trigger Event Consequences*) of Schedule 5 (*Trigger Events*) to the CTA.

“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.

“Industrial Emissions Directive” or “IED” means the EU Directive 2010/75/EU.

“Initial Credit Facility” means the Working Capital Facility and the Capital Expenditure Facility made available to the Issuer under 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 is made available to the Issuer.

“Initial Credit Facility Provider” means each of Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, London Branch, Dresdner Bank AG London Branch, HSBC Bank plc, Lloyds Bank plc, Morgan Stanley Bank International Limited, Royal Bank of Canada and The Royal Bank of Scotland plc or any successor thereto.

“Initial DSR Liquidity Facilities” means the DSR Liquidity Facilities to be entered into on the Initial Issue Date between each of the Issuer, TWUF and the Initial DSR Liquidity Facility Providers pursuant to the Initial DSR Liquidity Facility Agreement.

“Initial DSR Liquidity Facility Agreement” means each of the DSR Liquidity Facility Agreement entered into between each of the Issuer, TWUF and the Initial DSR Liquidity Facility Providers on the Initial Issue Date.

“Initial DSR Liquidity Facility Provider” means each of Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, London Branch, Dresdner Bank AG London Branch, HSBC Bank plc, Royal Bank of Canada and The Royal Bank of Scotland plc 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 (UK) Limited;
- (f) MBIA UK Insurance Limited;
- (g) MBIA Insurance Corporation; and
- (h) XL Capital Assurance (UK) 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” means the £105 million facility provided by the Initial O&M Reserve Facility Providers to the Issuer pursuant to the Initial O&M Reserve Facility Agreement.

“Initial O&M Reserve Facility Agreement” means the O&M Reserve Facility Agreement entered into on the Initial Issue Date between the Initial O&M Reserve Facility Providers of the Issuer.

“Initial O&M Reserve Facility Provider” means each of Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, London Branch, Dresdner Bank AG London Branch, HSBC Bank plc, Royal Bank of Canada and The Royal Bank of Scotland plc, or any successor thereto.

“Initial Subordinated Amount” means the outstanding debt for consideration payable to the Parent from 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 appointed by the Security Trustee) 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 appointed by the Security Trustee) 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.

"Interim determination" means an interim determination as provided for in Part IV of condition B of the Instrument of Appointment.

"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.

“IP” means the company designated by the Secretary of State or Ofwat under the SIP Regulations to deliver the TTT Project.

“IP Charges” means the amount which the IP is allowed to charge to TWUL in accordance with the IP Project Licence.

“IP Designation Notice” means a notice issued by Ofwat in accordance with Regulation 8(l) of the SIP Regulations.

“IP Liability” means any liability:

- (a) in respect of a historical period, which is shown in the financial statements of TWUL (delivered to the Security Trustee pursuant to paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the CTA) arising as a result of the treatment of the TTT Project in the financial statements of TWUL and described as such in the notes to the financial statements; or
- (b) in respect of a forward looking period, which is anticipated to arise as a result of the treatment of the TTT Project in the financial statements of TWUL and which is anticipated to be described as such in the notes to the financial statements.

In each case, the IP Liability shall not include any financial liability which arises (or is anticipated to arise) from amounts being overdue for payment or which represents (or is anticipated to represent) a legal repayment obligation of TWUL.

“IP Procurement” means the process conducted by TWUL of procuring the IP for the delivery of the TTT Project.

“IP Project Licence” means the project licence to be granted to the IP pursuant to section 17FA of the WIA (as given effect by the SIP Regulations).

“IP Related Payments” means such payment made or, in respect of a forward looking period, anticipated to be made in respect of amounts of the IP Charges.

“IP Related Revenue” means such revenue collected or, in respect of a forward looking period, anticipated to be collected in respect of customer charges permitted under the IP Project Licence,

“IP Works” means the design, construction, commission and commencement of the TTT Project (including all necessary permanent and temporary works) and any other works carried out the IP in accordance with the TTT Project documents, excluding the TWUL Works.

“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 interim determination 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.

“Irish Stock Exchange” means the Irish Stock Exchange plc.

“ISDA Master Agreement” means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multi-Currency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

“Issue Date” means the date of issue of any Tranche of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and the Issuer or, as the case may be, TWUF makes a utilisation of that facility.

“Issue Price” means the price as stated in 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 registered 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.

“JPY Bonds” means the following bonds issued by TWUF pursuant to the JPY Bond Trust Deeds:

- (a) JPY5,000,000,000 1.704 per cent. notes due 2009;
- (b) JPY5,000,000,000 2.135 per cent. notes due 2009; and
- (c) JPY2,000,000,000 3.000 per cent. dual currency notes due 2011;

“JPY Bond Trust Deeds” means the bond trust deeds in relation to the JPY Bonds, namely:

- (a) in respect of the JPY Bonds referred to in sub-paragraphs (c) of the definition of JPY Bonds, the amended and restated trust deed (as amended or supplemented from time to time) dated 9 October 1997 (as amended by a supplemental trust deed dated 31 December 2001) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.; and
- (b) in respect of the JPY Bonds referred to in paragraphs (a) and (b) of the definition of JPY 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.

In each case, as amended pursuant to a deed of variation dated 5 September 2007 as further amended or supplemented from time to time.

“JPY Bond Trustee” means Deutsche Trustee Company Limited or any successor thereto.

“K” means the adjustment factor set for each year by Ofwat by which charges made by Regulated Companies for water and sewerage supply 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 the Reference Banks to prime banks in the London interbank market for entry into 12 month (or such other period as is equal to the relevant Rental Period under such Finance Lease) forward contracts, commencing on each Rental Payment Date arising during the period commencing on such Lease Calculation Date and ending on the last Rental Payment Date to occur during the relevant Test Period and as agreed between TWUL and the relevant Finance Lessor (provided that, where any Finance Lease contains Rentals which are calculated by reference to a fixed rate of interest, any Lease Calculation Cashflow produced in respect of that Finance Lease shall reflect the actual fixed rate of interest implicit in such Rental calculations), provided that where in respect of any Finance Lease there has been a change of assumption resulting in an increase or decrease in the Rental payable thereunder during any Test Period commencing on 1 April in any year, the Lease Calculation Cashflow applicable to that Finance Lease for such Test Period shall also include a cashflow statement, produced as soon as reasonably practicable after the time of recalculating the Rental and in accordance with its terms, and the terms of the relevant Accession Memorandum and using, in such cashflow statement, the same estimated interest rates as were used in preparation of the original cashflow statement prepared on or as soon as reasonably practicable after the Lease Calculation Date applicable to that Test Period;

“Lease Calculation Date” means in respect of any Existing Finance Lease:

- (a) the Initial Issue Date; and
- (b) the date falling 10 days before the Rental Payment Date immediately preceding 1 April 2008; and
- (c) each yearly anniversary of the date referred to in paragraph (b) above,

and in respect of any other Finance Lease, means:

- (a) the date of the Accession Memorandum executed by the relevant Finance Lessor relating to such Finance Lease; and
- (b) 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 (A) above; and
- (c) each anniversary of the date referred to in (B) above,

save that where any date referred to in (b), (c), (A), (B) or (C) is not a Business Day, such date shall be deemed to be the 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).

“Lee Tunnel” means the storage and transfer tunnel from Abbey Mills Pumping Station to Beckton sewage treatment works and the interception of the Abbey Mills Pumping Station CSO.

“Legacy Bonds” means the following bonds issued by TWUF pursuant to the Legacy Bond Trust Deeds:

- (a) £175,000,000 3.375 per cent. index-linked guaranteed notes due 2021;
- (b) £330,000,000 6.75 per cent. guaranteed bonds due 2028; and

(c) £200,000,000 6.50 per cent. guaranteed bonds due 2032.

“Legacy Bond Trust Deeds” means the bond trust deeds in relation to the Legacy Bonds, namely:

- (a) in respect of the Legacy Bonds referred to in paragraph (a) of the definition of Legacy Bonds, the amended and restated trust deed dated 5 October 2001 (as amended and supplemented from time to time) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.;
- (b) in respect of the Legacy Bonds referred to in paragraph (b) of the definition of Legacy Bonds, the trust deed dated 9 October 1997 (as amended by a supplemental trust deed dated 22 October 1998) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.; and
- (c) in respect of the Legacy Bonds referred to in paragraph (c) of the definition of Legacy Bonds, the amended and restated trust deed dated 9 October 1997 (as amended by a supplemental trust deed dated 22 October 1998 and a supplemental trust deed dated 22 October 1999) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.,

in each case, as amended pursuant to a deed of variation dated 14 February 2008 as further amended or supplemented from time to time;

“Legacy Bond Trustee” means Deutsche Trustee Company Limited or any successor thereto.

“Liability” means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including in respect of taxes, duties, levies, imposts and other charges) and including any irrecoverable value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis.

“LIBOR” has the meaning given to that term in the relevant Finance Document.

“Licence” 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 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 Facilities/O&M Reserve Facility Terms*) to 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.

“London Stock Exchange” means The London Stock Exchange PLC.



“London Tideway Tunnels” means the TTT Project and the Lee Tunnel.

“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.

“Main Securities Market” means the regulated market of the Irish Stock Exchange.

“Major Capex Projects” means each of (a) the Upper Thames Reservoir Project; (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).

“Make-Whole Amount” means any amount above par payable on redemption of any Senior Debt except where such amount is limited to accrued interest.

“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, 9 December 2011, 16 September 2013, 1 July 2014 and 15 May 2015 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.

“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;

“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 less any anticipated net cash flow from operating activities of its business other than its Appointed Business and after adding back 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) 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 Account” means the account of TWUL and/or the Issuer entitled “O&M Reserve Account” held at the Account Bank and includes any sub-account relating to such accounts 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 each of the Initial O&M Reserve Facility Providers or any other lender from time to time under 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 TWUL, TWH, TWUCFH, TWUF and the Issuer, together with any other entity which accedes to the Finance Documents as an Obligor in accordance with the terms thereof, “Obligor” means any of them;

“Official List” means the official list of the Irish Stock Exchange.

“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 sub-account and any replacement account or other operating accounts from time to time.

“Operating Techniques” means the agreement relating to operating techniques made between TWUL and the EA, dated 8 November 2012 as amended 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-Tranche 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 Bearer Bonds or another Global Bond and, in the case of Registered Bonds, any Registered Global Bond to the extent that it shall have been exchanged for Definitive Registered Bonds, 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:

- (a) the right to attend and vote at any meeting of the holders of the Bonds of any Sub-Class;
- (b) 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 Amounts of Qualifying Debt*) of the STID and paragraphs 2, 5, 6 and 13 of Schedule 4 (*Provisions for Meetings of Bondholders*) to the Bond Trust Deed;
- (c) 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
- (d) 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, any Subsidiary of the Issuer or 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 Bonds), the Principal Amount Outstanding (or the Equivalent Amount) of such Wrapped Bonds (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 Documents,

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 interim determination 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.

“Party” means in relation to a Finance Document a party to such Finance Document.

“Paying Agents” means, in relation to all or any Sub-Class 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 provisions relating to the order of priority of payments set out in paragraph 9.3 of Schedule 11 (*Cash Management*) to the CTA as adjusted following the taking of any Enforcement Action and following termination of a Standstill (other than pursuant to Clause 13.4.1(c) (*Termination of Standstill*) of the STID) 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.

“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 Part B (*Form of Permanent Global Bond*) of Schedule 2 (*Forms of Global and Definitive Bearer Bonds, Receipts, Coupons and Talons*) 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 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 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; or
- (g) any acquisition made, or Permitted Joint Venture entered into with the consent of the Security Trustee,

in each case to the extent that such acquisition would not contravene the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or WIA.

"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 or to be leased under a Finance Lease;
- (d) would not result in the Senior RAR or the Conformed 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, 2:1 or 0.75:1 (respectively) and from and including the Ratio Step Date, 2:1 or 0.90:1 (respectively));
- (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 (Financial Ratios), Part 1 (Trigger Events) of Schedule 5 (Trigger Events) 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 length 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 (i) such disposal does not cause any of the Trigger Event Ratio Levels to be breached and (ii) such disposal would not contravene the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or WIA.

"Permitted EIB Compulsory Prepayment Event" means a demand for prepayment of an Existing Authorised Credit Facility by the Existing Authorised Credit Provider pursuant to Article 4.03(A) of the relevant Existing Authorised Credit Finance Contract save that TWUL will not make payment to the Existing Authorised Credit Provider of any sums due and payable in respect of such demand for prepayment if (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations and Permitted EIB Compulsory Prepayment Events in respect of other Existing Authorised Credit Facilities) has occurred; or (ii) a Default Situation is subsisting or would occur as a result of such payment.

"Permitted Emergency Action" means any remedial action taken by TWUL during an Emergency which is in accordance with the policies, standards and procedures for emergency planning manual (EMPROC) of TWUL (as amended from time to time), Ofwat guidance notes and Public Procurement Rules and which TWUL considers necessary and which continues only so long as required to remedy the Emergency but in any event no longer than 28 days or such longer period as is agreed by TWUL and the Security Trustee.

"Permitted Existing Non-Appointed Business" means any business other than the Appointed Business which was carried on by TWUL at the Initial Issue Date and (a) which falls within the Permitted Non-Appointed Business Limits applicable to Permitted Existing Non-Appointed Business, and (b) in respect of which all material risks related thereto are insured in accordance with the provisions relating to insurance contained in the CTA, and (c) which does not give rise to any material actual or contingent liabilities for TWUL that are not properly provided for in its financial statements.

"Permitted Financial Indebtedness" means:

- (a) Financial Indebtedness incurred under the Issuer/TWUL Loan Agreement, the TWUF/TWUL Loan Agreements or the TWUL/TWH Loan Agreement;
- (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 and unsecured debt under limb (m) of this definition) 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 and unsecured debt under limb (m) of this definition 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 and unsecured debt under limb (m) of this definition 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 Agreement, 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, TWUF nor the Issuer will be in breach of paragraph 4 (*DSR Liquidity Facility*) of Part 2 (*Financial Covenants*) of Schedule 4 (*Covenants*) to 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 (but subject to the priorities set out in Paragraph 9 of Schedule 11 to the CTA) with all other Class A Debt in its category of Class A Debt and the Financial Indebtedness that is Class B Debt ranks *pari passu* in all respects (but subject to the priorities set out in Paragraph 9 of Schedule 11 to the CTA) with all other Class B Debt in its category of Class B Debt;
  - (v) if such further Financial Indebtedness is Class A Debt or Class B Debt then the Senior RAR and the Conformed 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, 2:1 and 0.75:1 (respectively); and (ii) from and including

the Ratio Step Date, 2:1 and 0.90:1 (respectively) 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, the Conformed Class A Adjusted ICR and the Additional Conformed Class A Adjusted ICR must be greater than or equal to 0.1:1, 1.30:1 and 1.30:1 (respectively) 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;
- (l) such further Financial Indebtedness incurred by any member of the TWU Financing Group with the consent of the Security Trustee; or
- (m) any Financial Indebtedness or other financial liability shown in the accounts of TWUL arising (in either case) from the IP Liability.

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 subject always to the provisions of paragraphs 9, 10, 11 and 20 Schedule 7 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to 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 and Permitted EIB Compulsory Prepayment Events in respect of other Finance Leases) 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 Ofwat; 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 Limits” means in respect of Permitted Non-Appointed Business, that the average of Non-Appointed Expenses during the current Test Period and, if applicable, the immediately two preceding Test Periods does not exceed five per cent. of Cash Expenses of TWUL during such Test Periods.

“Permitted Payments” means the application of monies credited to the Debt Service Payment Account in accordance with the Payment Priorities.

“Permitted Post Closing Events” means:

- (a) payment of transaction fees and expenses, to the extent not paid on the Initial Issue Date; or
- (b) payments and other actions by any or all Obligors or other entities to enable Kemble Water Limited to pay certain amounts outstanding under the Bridge Facility and related documentation and the discharge of the security created under such documents; or
- (c) any other payments listed in writing by TWUL as at the Initial Issue Date and signed by way of approval by the Security Trustee.

“Permitted Property Lease” means:

- (a) a lease granted in favour of TWUL pursuant to a Permitted Sale and Leaseback;
- (b) the lease in respect of Rose Kiln Court granted in favour of TWUL by Thames Water Investments Limited;
- (c) the lease in respect of Clearwater Court granted in favour of TWUL by Thames Water Investments Limited;  
or
- (d) the lease in respect of Walnut Court 1 granted in favour of TWUL by Thames Water Investments Limited.

“Permitted Reorganisation” means each of the steps referred to in paragraph (f) of the definition of Permitted Acquisition.

“Permitted Sale and Leaseback” means:

- (a) the sale by TWUL and subsequent leaseback by TWUL of the property located at Walnut Court 2; and
- (b) the sale by TWUL and subsequent leaseback by TWUL of the Property located at Spencer House.

“Permitted Security Interest” means any security interest falling under paragraphs (a) to (f) (inclusive) below which is created by any Obligor, any security interest falling under paragraphs (g) to (k) (inclusive) below which is created by TWUL, TWUF or the Issuer 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 Schedule 11 (Cash Management) to 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 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” has the meaning given to such term in Clause 11.9 (Permitted Share Pledge Acceleration) of the STID.

“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” has the meaning given to it 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 0.8 per cent. of RCV.

“Permitted VAT Accounts System” means the VAT accounts system to be operated by TWUL for the benefit of Thames Water Limited 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,

in each case on behalf of Thames Water Limited and/or any subsidiary of Thames Water Limited.

“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.

“Preparatory Work Notice” means the notice issued by the Secretary of State pursuant to Regulation 5(3) of the SIP Regulations dated 4 June 2014 (as varied from time to time in accordance with Regulation 5(7)) permitting or requiring Thames Water to undertake such preparatory work in relation to the TTT Project as set out in that notice.

“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 Irish 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.

“Project Specification Notice” means the notice issued by the Secretary of State in accordance with Regulation 4(1) of the SIP Regulations dated 4 June 2014 (as varied from time to time in accordance with regulation 4(7) of the SIP Regulations) specifying the TTT Project as a specified infrastructure project.

“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 (including the Utilities Contracts Regulations 1996 (SI 1996/2911) as amended by the Utilities Contracts (Amendment) Regulations 2001 (SI 2001/2418)) and of the European Communities (including Directive 93/98 as amended by Directive 98/4) 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 interim determination or other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review or interim determination (interpolated as necessary and adjusted as appropriate for Out-turn Inflation), provided that “RCV” for the purposes of calculating the Senior RAR, Conformed 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 Bearer Bond redeemable in instalments for the payment of an instalment of principal such receipt being in the form or substantially in the form set out in Part D (*Form of Receipt*) of Schedule 2 (*Forms of Global and Definitive Bearer Bonds, Receipts, Coupons and Talons*) to the Bond Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond

Trustee and the relevant Dealer(s) and includes any replacements for Receipts or 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.

“Reference Bank” has the meaning given to that term in the relevant Finance Document, provided that if no Reference Bank is specified in the relevant Finance Document, the Reference Bank shall be The Royal Bank of Scotland plc or any other two reference banks;

“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 Global Bond” means a Registered Bond in global form in the form or substantially in the form set out in Part A (Form of Registered Global Bond) of Schedule 3 to the Bond Trust Deed, together 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 Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed and refers to a Regulation S Registered Global Bond and/or a Rule 144A Registered Global Bond, as the context may require;

“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 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 in 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(m) (*Definitions*).

“Remedial Plan” means any remedial plan agreed by TWUL and the Security Trustee under Part 2 (*Trigger Event Consequences*) of Schedule 5 (*Trigger Events*) to 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.

“Required Balance” means, on any Payment Date, the aggregate of the Class A Required Balance and the Class B Required Balance.

“Reserved Matters” means the rights of the Secured Creditors provided by the terms of Clause 8.10 (*Reserved Matters of Secured Creditors and/or Secured Creditor Representatives*) of the STID and the Security Trustee Reserved Matters, the Bond Trustee Reserved Matters, the TWUF Bond Trustee Reserved Matters, the Financial Guarantor Reserved Matters and the Hedge Counterparty Reserved Matters provided by the terms of Clause 8.11



(*Reserved Matters of Security Trustee, Bond Trustee, TWUF Bond Trustee, Financial Guarantors, Secondary Market Guarantors and Hedge Counterparties*) and Schedule 3 (*Reserved Matters*) to the STID.

“Restricted Payment” means any Distribution, Deferral of K, or any 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) any Intra-Group Debt Service Distribution.

“Restricted Payment Condition” means each of the conditions in paragraph 37 (*Restricted Payments*) of Part 3 (*General Covenants*) Schedule 4 (*Covenants*) to the CTA 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 (January 1987 = 100) 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 of retail prices as specified in such RPI Linked Hedging Agreement.

“Revenue Agreement” means the revenue agreement as described in the section entitled “*Description of the TTT Project – Part 4 – Revenue 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 Ratings Services, a Division of McGraw-Hill Financial Inc., or any successor to the rating agency business of S&P.

“SCADA” means supervisory, control and data acquisition.

“Schedule of Scope Baseline Scope Report (Blue Book)” means the document of that name to be annexed to the Interface Agreement.

“Secondary Market Guarantor” means (a) each Eligible Secondary Market Guarantor party to the STID on the Initial Issue Date; and (b) each Eligible Secondary Market Guarantor that has, in respect of any Class A Unwrapped Bonds or any Secured TWUF Bonds (i) delivered an FG Covered Bond Notice to the Security Trustee and the Bond Trustee or, as the case may be, the relevant TWUF Bond Trustee in accordance with Clause 2.5 (*Accession of*

*Secondary Market Guarantor*) to the STID; and (ii) acceded to the STID in accordance with Clause 2.5 (*Accession of Secondary Market Guarantor*) of the STID (*provided that* in the case of (a) and (b), a Secondary Market Guarantor will cease to be a Secondary Market Guarantor and a Class A DIG Representative from and including the date upon which a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor has been delivered to the Security Trustee in accordance with Clause 2.5 (*Accession of Secondary Market Guarantor*) of the STID).

“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 the Restricted Secured Liabilities and the Unrestricted Secured Liabilities.

“Secured TWUF Bonds” means the Flipper Bonds together with (i) with effect from 5 September 2007, the JPY Bonds and (ii) with effect from 14 February 2008, the Legacy Bonds in respect of which the relevant TWUF Bond Trustee has acceded to the STID as a Secured Creditor Representative and a Class A DIG Representative;

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

“Secured TWUF Bond Trust Deeds” means the TWUF Bond Trust Deeds relating to Secured TWUF Bonds.

“Secured TWUF FG Covered Bond” means any Secured TWUF Bond in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (provided that such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor in accordance with Clause 2.5 (*Accession of Secondary Market Guarantors*) of the STID).

“Securities Act” means the United States Securities Act of 1933;

“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 to be 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.

“SEMD” means The Security and Emergency Measures (Water and Sewerage Undertakers) Direction 1998.

“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 Groups.

“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 TWUF’s and/or 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, TWUF's and/or 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, 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.

"Service Incentive Mechanism" or "SIM" means the service incentive mechanism introduced by Ofwat on 1 April 2010.

"Sewerage Region" means the geographical area for which a Regulated Company has been appointed as the sewerage undertaker under Section 6 of the WIA.

"SFOC" means sewer flooding other causes.

"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.

"SIP Regulations" means the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013 (as amended from time to time).

“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 Ratings Services, a division of McGraw-Hill Financial Inc. or any successor to the rating business of Standard & Poor’s Rating Services.

“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 appointed in accordance with Schedule 11 (*Cash Management*) to the CTA.

“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.

“STID” means the security trust and intercreditor deed entered into on the Initial Issue Date as amended and restated from time to time between, among others, the Security Trustee, the Obligors, the Bond Trustee and the Flipper Bond Trustee.

“STID Directions Request” has the meaning given to such term in Clause 9.3 (*Notice to Secured Creditors and Secondary Market Guarantors of STID Proposal*) of the STID.

“STID Proposal” has the meaning given to such term in Clause 9.1 (*Instigation of STID Proposal*) of the STID.

“Sub-Class” means a division of a Class.

“Substantial Effects Clause” means a clause which may be contained in the Instrument of Appointment of a Regulated Company and which in the case of TWUL is contained in Part IV of Licence Condition B, pursuant to which the Regulated Company may, if so permitted by the conditions of its Instrument of Appointment, request price limits to be reset if the Appointed Business either (i) suffers a substantial adverse effect which could not have been avoided by prudent management action or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action.

“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:

- (a) the amount by which the amount of interest accruing at the Mandatory Cost Rate at any time exceeds the Mandatory Cost Rate on the date of the relevant Liquidity Facility Agreement; and
- (b) 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 (*Pro Forma Subscription Agreement*) 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.

“System Acceptance” means the acceptance of all of the Assets in accordance with the Interface 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 or Receipts, as the case may be, appertaining to, the Definitive Bearer Bonds (other than Zero Coupon Bonds) such talons being in the form or substantially in the form set out in Part F (*Form of Talon*) of Schedule 2 (*Forms of Global and Definitive Bearer Bonds, Receipts, Coupon and Talons*) to the Bond Trust Deed or in such other form as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and includes any replacements for Talons issued pursuant to Condition 14 (*Replacement of Bonds, Receipts, Coupons and Talons*).

“TARGET Settlement Day” has the meaning given to such term in Condition 6(m) (*Definitions*).

“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 Part A (*Form of Temporary Global Bond*) of Schedule 2 (*Forms of Global and Definitive Bearer Bonds, Receipts, Coupons and Tables*) 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; or
- (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 from 1 April 2008 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 Holdings 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;

“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 Contract; 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 Successors 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 Schedule 5 (*Trigger Events*) to the CTA.

“Trigger Event Ratio Levels” means the financial ratios set out in paragraph 1 (*Financial Ratios*) of Part 1 (*Trigger Events*) of Schedule 5 (*Trigger Events*) to the CTA.

“TTT Core Project Documents” means any agreement to which TWUL and the IP (or any permitted successor or assign of the IP) are both party or any deed poll or other document under which TWUL incurs an obligation in favour of the IP (or any permitted successor or assign of the IP) by unilateral declaration.

“TTT Project” means the infrastructure project described in Schedule 1 to the Project Specification Notice, being the Thames Tideway Tunnel.

“TTT Project Key Characteristics” means

### ***1. Specification of the TTT Project***

The Secretary of State or Ofwat specifies the TTT Project under the SIP Regulations.

For so long as the Project Specification Notice is not revoked, the SIP Regulations prohibit TWUL from undertaking the TTT Project (as specified), subject to any preparatory works which TWUL is required or permitted to undertake should the Secretary of State or Ofwat give a notice pursuant to Section 5(3) of the SIP Regulations.

### ***2. Revocation of the Project Specification Notice***

If the Project Specification Notice is revoked: (i) TWUL will have an obligation under the TWUL Licence to put forward a proposal to meet the requirements of the UWWTR and make the existing IP assets safe; (ii) in respect of any works to secure the IP assets and/or the TWUL assets in relation to the TTT Project TWUL will be entitled under the TWUL Licence to the economic and efficient costs for securing the IP assets and the TWUL assets through either a determination by Ofwat or the Competition and Markets Authority pursuant to the regulatory settlement process; (iii) in respect of any works to implement any proposal with a view to securing compliance with the requirements of the UWWTR, TWUL will only be obliged, under the TWUL



Licence, to implement such works to the extent that the additional funding has been awarded to TWUL through either a determination by Ofwat or the Competition and Markets Authority pursuant to the regulatory settlement process; and (iv) the IP shall have no right under any agreement with TWUL to claim any sum from TWUL in respect of any IP assets which may transfer to TWUL in these circumstances.

***3. An entity that is separate from TWUL is designated to deliver the TTT Project***

An entity that is separate from TWUL is designated by the Secretary of State or Ofwat as an IP to deliver the TTT Project as specified in the Project Specification Notice.

***4. IP Project Licence award***

Following designation, the IP is awarded the IP Project Licence, pursuant to which the TTT Project will be its regulated business.

***5. TWUL Licence modified to allow pass-through of IP Charges***

TWUL Licence is modified to include provisions which allow TWUL to charge customers in respect of the IP Charges.

***6. Pay when Paid only***

In respect of the IP Charges, under the Revenue Agreement TWUL does not enter into or accept any obligation to pass to the IP amounts other than the IP's proportion of any sums received from wastewater customers in that period in respect of wastewater charges.

***7. No Payment Acceleration***

Neither the Revenue Agreement nor any other document entered into by both TWUL and the IP permits the payment profile of IP Charges to be accelerated for default.

“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.

“TWL VAT Group” means the VAT group with registration number GB 905 1000 87.

“TWU Financing Group” means TWH, TWUF, TWUL, TWUCFH the Issuer and any other Permitted Subsidiaries.

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

“TWUF Bond Trust Deeds” means the Flipper Bond Trust Deeds, the Legacy Bond Trust Deeds and the JPY Bond Trust Deeds.

“TWUF Bond Trustee” means each of the Flipper Bond Trustee, the JPY Bond Trustee and the Legacy Bond Trustee.

“TWUF Bond Trustee Reserved Matters” means those matters set out in Part C (*TWUF Bond Trustee Reserved Matters*) of Schedule 3 (*Reserved Matters*) to the STID.

“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 (a) TWH ceasing to hold legally and beneficially all rights in 100 per cent. of the issued ordinary 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.

“TWUL Works” means those works set out in the schedule to the Interface Agreement.

“UK” means the United Kingdom.

“Unsecured TWUF Bond Debt” means all unsecured Financial Indebtedness outstanding under the Legacy Bonds and JPY Bonds prior to the respective dates on which such Legacy Bonds and JPY 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 Debt” or “Unwrapped Bond” means any indebtedness or Bond (respectively) that does not have the benefit of a Financial Guarantee.

“Upper Thames Reservoir Project” means the proposal for additional storage capacity in Oxfordshire to take effect from around the year 2019.

“Upper Thames Reservoir Project” means the proposal for additional storage capacity in Oxfordshire to take effect from around the year 2019.

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

“UWWTR” means the Urban Waste Water Treatment (England and Wales) Regulations 1994 (as amended from time to time).

“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 Clause 9.8 (*Binding Vote of DIG Representatives*) of the STID;

“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 Clause 9.8 (*Binding Vote of DIG Representatives*) of the STID;

“Water Framework Directive” or (“WFD”) 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 Services (Utilities) Act 1992, the Water Industry Act 1999, the Water Act 2003 and the Water Act 2014.

“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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