

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF THE ISSUER IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT IN CERTAIN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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 Banco Santander, S.A., Barclays Bank PLC, BNP Paribas,

Commonwealth Bank of Australia (ABN 48 123 123 124), HSBC Bank plc, J.P. Morgan Securities plc, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, National Australia Bank Limited (ABN 12 004 044 937), NatWest Markets Plc, RBC Europe Limited, Scotiabank Europe plc, SMBC Nikko Capital Markets Limited, Société Générale 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 Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Commonwealth Bank of Australia (ABN 48 123 123 124), HSBC Bank plc, J.P. Morgan Securities plc, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, National Australia Bank Limited (ABN 12 004 044 937), NatWest Markets Plc, RBC Europe Limited, Scotiabank Europe plc, SMBC Nikko Capital Markets Limited, Société Générale or such affiliate on behalf of the Issuer in such jurisdiction.

**MiFID II product governance/professional investors and eligible counterparties only target market –**

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a “**distributor**”) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

In the United Kingdom, this electronic transmission and the Prospectus are addressed to and directed only at:

(i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”); (ii) persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order; or (iii) other persons to whom they may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”). This electronic transmission and the Prospectus must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. Any investment or investment activity to which this electronic transmission and the Prospectus relate is available only to relevant persons in the United Kingdom and will be engaged in only with such persons.

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 Finance plc or Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Commonwealth Bank of Australia (ABN 48 123 123 124), HSBC Bank plc, J.P. Morgan Securities plc, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, National Australia Bank Limited (ABN 12 004 044 937), NatWest Markets Plc, RBC Europe Limited, Scotiabank Europe plc, SMBC Nikko Capital Markets Limited, Société Générale (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 FINANCE PLC

*(incorporated with limited liability in England and Wales with registered number 02403744)*

**£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 with limited liability in England and Wales with registered number 2366661)*

On 30 August 2007, Thames Water Utilities Cayman Finance Limited ("TWUCFL") 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.

On 31 August 2018, TWUCFL was substituted with Thames Water Utilities Finance plc (the "**Issuer**" or "**TWUF**") as the issuer of all Bonds previously issued by TWUCFL and accordingly TWUF has succeeded TWUCFL as the Issuer under the Programme.

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**") and Thames Water Utilities Holdings Limited ("**TWH**"), as described herein. TWUL, 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 (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 plc, trading as Euronext Dublin ("**Euronext Dublin**") 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 2014/65/EU and/or which are to be offered to the public in any member state of the European Economic Area ("**EEA**"). 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 2014/65/EU (as amended, "**MiFID II**") of the European Parliament and of the Council on markets in financial instruments. The Programme provides that Bonds will be listed on Euronext Dublin. 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.*

*Arranger*  
**Barclays**

*Certain Dealers*

**Barclays**  
**HSBC**  
**Morgan Stanley**  
**NatWest Markets**  
**Scotiabank**

**BNP PARIBAS**  
**J.P. Morgan**  
**MUFG**  
**RBC Capital Markets**  
**SMBC Nikko**

**Commonwealth Bank of Australia**  
**Lloyds Bank Corporate Markets**  
**National Australia Bank Limited**  
**Santander Corporate & Investment Banking**  
**Société Générale Corporate & Investment Banking**

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 Euronext Dublin 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	BBB+	A3
Class B Unwrapped Bonds	BBB-	Baa3

The Class A Unwrapped Bonds in issue have a rating of BBB+ (negative outlook) by Standard & Poor’s and A3 (negative outlook) by Moody’s. The Class B Unwrapped Bonds in issue have a rating of BBB- (negative outlook) by Standard & Poor’s and Baa3 (negative 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 S&P Global Ratings 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.

Amounts payable under the Bonds may be calculated by reference to (i) the London inter-bank offered rate (**"LIBOR"**), which is provided by ICE Benchmark Administration Limited (**"IBA"**), (ii) the Euro-zone inter-bank offered rate (**"EURIBOR"**), which is provided by the European Money Markets Institute (the **"EMMI"**), (iii) the United Kingdom retail price index (**"RPI"**), which is provided by the Office for National Statistics, (iv) the United Kingdom consumer price index (**"CPI"**), which is provided by the Office for National Statistics or (v) the harmonised indices of consumer prices (**"HICP"**), which is provided by Eurostat. As at the date of this Prospectus, the IBA appears and the EMMI does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (**"ESMA"**) pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the **"BMR"**).

As far as the Issuer is aware, RPI, CPI and HICP do not fall within the scope of the BMR by virtue of Article 2 of that regulation. In addition, the transitional provisions in Article 51 of the BMR apply, such that the EMMI is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

**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 and the Final Terms or Drawdown Prospectus, as the case may be, for each Tranche of Bonds (as defined below) issued under the Programme. 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, 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.

**IMPORTANT – EEA RETAIL INVESTORS** – If the Final Terms in respect of the Bonds (or any Drawdown Prospectus) includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MiFID II product governance / target market** – The Final Terms in respect of any Bonds may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Bonds and which channels for distribution of the Bonds are appropriate. Any person subsequently offering, selling or recommending the Bonds (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Bonds is a manufacturer in respect of such Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

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 for a period of 12 months from the date of such publication (<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 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 — 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 BONDS MAY INCLUDE BEARER BONDS THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE BONDS MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER BONDS, 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 BONDS 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 BONDS OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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.

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.

**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, stabilisation may not occur. 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 cease 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 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/-/media/6F7E1D2B3478426BB538B6C4E7577D6E.ashx?bc=White&db=web&la=en&thn=1&ts=afdf3f04-f65d-4a42-8f17-0a253ac39651.pdf>) (the “**2007 T&Cs**”);
- (ii) the Terms and Conditions of the Bonds as contained at pages 132 to 164 (inclusive) of the base prospectus dated 25 July 2008 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/-/media/62BFE7B0C6C24CD7BFF11E436095E5ED.ashx?bc=White&db=web&la=en&thn=1&ts=2f434956-d9c4-47a1-a00d-abe77df4ee45.pdf>) (the “**2008 T&Cs**”);
- (iii) the Terms and Conditions of the Bonds as contained at pages 145 to 178 (inclusive) of the base prospectus dated 15 September 2009 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/-/media/50AE7E2BDE1D4D68ACD7B02D7924E001.ashx?bc=White&db=web&la=en&thn=1&ts=6b8285cd-6c3c-4679-8e2a-01aa0327be41.pdf>) (the “**2009 T&Cs**”);
- (iv) the Terms and Conditions of the Bonds as contained at pages 150 to 185 (inclusive) of the base prospectus dated 15 June 2010 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/-/media/508F271DB5E042409DAB4DA851C07848.ashx?bc=White&db=web&la=en&thn=1&ts=d142c228-d27b-47c9-b603-f2b94ce37084.pdf>) (the “**2010 T&Cs**”);
- (v) the Terms and Conditions of the Bonds as contained at pages 168 to 205 (inclusive) of the base prospectus dated 24 June 2011 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/-/media/C0A13F07214E4687A61CEFC1A1408FD7.ashx?bc=White&db=web&la=en&thn=1&ts=7928d307-efa1-4b2f-b959-a3d06508fc5a.pdf>) (the “**2011 T&Cs**”);
- (vi) the Terms and Conditions of the Bonds as contained at pages 142 to 180 (inclusive) of the base prospectus dated 18 June 2012 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/-/media/500E11A08BBF40C19177C9CBE536E79E.ashx?bc=White&db=web&la=en&thn=1&ts=5b4c9fc6-7426-4786-95ca-f4db922a9ba1.pdf>) (the “**2012 T&Cs**”);
- (vii) the Terms and Conditions of the Bonds as contained at pages 140 to 179 (inclusive) of the base prospectus dated 11 March 2014 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/-/media/952A1D3DB024479F9426E3E27C735512.ashx?bc=White&db=web&la=en&thn=1&ts=2052b498-c545-494b-b534-a61e38c4368b.pdf>) (the “**2014 T&Cs**”);
- (viii) the Terms and Conditions of the Bonds as contained at pages 197 to 236 (inclusive) of the base prospectus dated 26 June 2015 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/-/media/24781CD4398441F19B88E2D58173D763.ashx?bc=White&db=web&la=en&thn=1&ts=bcc0f5f9-12ad-4053-a1e0-111e9df2d37d.pdf>) (the “**2015 T&Cs**”);

- (ix) the Terms and Conditions of the Bonds as contained at pages 181 to 220 (inclusive) of the base prospectus dated 16 September 2016 (<https://corporate.thameswater.co.uk/About-us/Our-investors/Debt-investors-disclaimer/Debt-investors/TWUCFLTD-Disclaimer/-/media/33E5198996F14A9489FBB39E5D3B8944.ashx?bc=White&db=web&la=en&thn=1&ts=6fb65e4b-98be-4846-9c1d-d005fb484f6d.pdf>) (the “**2016 T&Cs**”);
- (x) the Terms and Conditions of the Bonds as contained at pages 180 to 218 (inclusive) of the base prospectus dated 10 October 2017 (<https://corporate.thameswater.co.uk/-/media/Site-Content/Thames-Water/Corporate/AboutUs/Investors/Debt-investors/Thames-Water-utilities/TW-Utilities-Cayman-Finance-Limited/Prospectuses/Thames-Water-Utilities-Cayman-Finance-Limited-Bond-Prospectus-October-2017.pdf>) (the “**2017 T&Cs**”);
- (xi) the audited financial statements of TWUL for the year ended ended 31 March 2017 (as contained at pages 104 to 155 (inclusive) of TWUL’s annual report and financial statements (<https://corporate.thameswater.co.uk/About-us/Our-investors/-/media/CF0DC37A54F34AC58F740AAB5AF33D2D.ashx?bc=White&db=web&la=en&thn=1&ts=ae873cff-ef0d-4fd6-a3d9-e93edf9df4d3.pdf>) and for the year ended 31 March 2018 (as contained at pages 133 to 180 (inclusive) of TWUL’s annual report and financial statements (<https://corporate.thameswater.co.uk/-/media/Site-Content/Thames-Water/Corporate/AboutUs/Investors/Annual-report/2018/2017-18-Annual-Report-and-Annual-Performance-Report.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 filed with the Central Bank of Ireland

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. Except as provided above, no other information (including information on the Issuer’s website and the website of the Central Bank of Ireland) is incorporated by reference herein.

The auditor’s report for the audited financial statements of TWUL for the years ended 31 March 2017 and 31 March 2018 can be found at:

- (i) pages 106 to 110 (inclusive), in the case of the audited financial statements of TWUL for the year ended 31 March 2017; and
- (ii) pages 134 to 136 (inclusive), in the case of the audited financial statements of TWUL for the year ended 31 March 2018.

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 audited financial statements of TWUL and the Issuer as at and for the years ended 31 March 2017 and 31 March 2018 have been prepared in accordance with EU-IFRS.

The audited financial statements of TWH as at and for the years ended 31 March 2017 and 31 March 2018 have been prepared in accordance with FRS 101.

## 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 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. In the case of Wrapped Bonds, the necessary information which is applicable to each Series will be set out in a Drawdown Prospectus.

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 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 5 “Description of the TWU Financing Group”.*

*This Risk Factors chapter is presented to cover the following risk categories and is accordingly divided into the following sections:*

- *Strategic risks*
- *Operational risks*
- *Compliance risks; and*
- *Financial risks*

*In this Prospectus, any operational performance figures that are financial measures and are not disclosed in the financial statements incorporated by reference herein will need to be disclosed as alternative performance measures. Unless specifically disclosed as such, in TWUL’s view, no operational performance figures provided herein are financial measures and as such are not alternative performance measures.*

### **Background**

TWUL is structured into separate business areas, each with its own management structure and leadership teams.

Each business area has risk management processes which are aligned to the overall TWUL risk management framework. Key specific business area considerations are outlined below, grouped across wholesale and retail due to the similarities in the nature of these areas. Each business area is overlaid by the regulatory framework

and the outcome delivery incentives (“**ODIs**”) which the business areas are aligned to deliver, are outlined in the Chapter 5 “*Description of the TWU Financing Group*”.

## **STRATEGIC RISKS**

### **Climate and Societal**

#### ***Brexit***

Current uncertainties around the terms of the United Kingdom’s withdrawal from the European Union as a consequence of Brexit have impacted, and continue to impact, the market. The implications of Brexit remain uncertain but have the potential to adversely affect the geopolitical landscape, macroeconomic conditions, stability of the financial market and companies’ businesses, including the Issuer and the Guarantor, more directly. There is also a risk of possible downgrades to the United Kingdom’s sovereign rating, which could in turn have a negative impact on the credit rating of the Issuer or any of the Guarantors. See “*Bond Considerations — Rating of the Bonds*”.

In addition, historically TWUL has accessed funding from Europe-based investors and institutions, including, by way of example, the EIB. In light of Brexit, TWUL may find it more difficult to access funding from such investors and institutions in the future, which could have a negative impact on TWUL’s ability to fund its activities and on the cost of that funding.

#### ***General market volatility***

Concerns relating to credit risk (including that of sovereigns and of those entities which have exposure to sovereigns) persist, in particular with respect to current economic, monetary and political conditions in the Eurozone. The large sovereign debts and/or fiscal deficits of a number of European countries and the United States have raised concerns regarding the financial condition of financial institutions, insurers and other corporates: (i) located in these countries; (ii) that have direct or indirect exposure to these countries; and/or (iii) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Issuer and/or the Guarantor operates and the businesses and economic condition and prospects of the counterparties, customers, suppliers or creditors of the Issuer and/or the Guarantor, directly or indirectly, in ways which it is difficult to predict.

#### ***Water shortages / population growth***

TWUL operates in an area with low annual average rainfall and a rapidly growing population.

In the event of drought, additional costs may be incurred by TWUL in providing emergency reinforcement to supplies and operating consumer awareness programmes. TWUL may also incur additional costs where there are restrictions on the use or supply of water, for example through temporary use bans, drought orders, drought permits and, in extreme circumstances, emergency drought orders, which may authorise TWUL to set up standpipes or water tanks to provide water. Each of these eventualities may result in compensation for customers or penalties for missed performance commitment targets. TWUL’s business operational performance, profitability, financial condition or key assets may also be adversely affected.

Population growth above forecast levels, climate change, elevated customer service level expectations and reduced customer tolerance for disruptions each are likely to necessitate more efficient use of existing resources and development of infrastructure projects to increase and/or improve capacity. Such projects carry long lead times and a large financial impact. Failure to plan effectively for future demand could adversely affect the reputation of TWUL with key external stakeholders and customers, and incur financial impacts and ODI penalties.

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. In such situations, TWUL may incur additional costs in implementing replacement sources and paying increased abstraction charges to cover compensation payments to other abstractors whose licences are revoked or varied to alleviate environmental impact.

### ***Climate change***

The continued heightening of attention to climate change, including activities by non-governmental and political organisations as well as greater interest by the broader public, is likely to lead to additional regulations designed to tackle climate change. Policies and initiatives at national and international levels to address climate change may affect business conditions and demand for services in the medium to long term. Customer response to climate change also presents risks to TWUL due to growing customer demand for low-carbon products and services.

In addition, new regulatory regimes may adversely affect TWUL's operations if TWUL is unable to find economically viable, as well as publicly acceptable, solutions that reduce its CO<sub>2</sub> emissions for new and existing projects or services.

Measures to tackle loss of biodiversity and policies intended to protect local habitats may also limit access to water resources in areas deemed to be biologically sensitive, which in turn could affect TWUL's wholesale business. Failure to adhere to the terms of any such policies or regulations on climate change, or indeed damage to the environment caused by TWUL's business activities, could result in added reputational risk, legal proceedings or other measures being taken against TWUL.

## **Political, regulatory and economic intervention**

### ***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 or without TWUL's consent.

The UK Secretary of State has a power to veto certain proposed modifications agreed by Ofwat and TWUL or refer them to the CMA. In the event of a referral to the CMA that determines that TWUL's existing licence operates against the public interest and that those adverse effects could be remedied or prevented by modifications of the licence, the licence could be modified without TWUL's consent. Additionally, modifications can result from a decision on a merger or market investigation referred by the CMA.

The way in which licence modifications are implemented could have a material impact on TWUL's profitability. Any failure or perceived failure by TWUL to comply with licence modifications or related requirements could result in substantial fines, loss or debarment of licence, legal proceedings and have a negative impact on operations and reputation.

In June 2018, Ofwat published an information notice setting out changes to how, when determining the level of licence fees, Ofwat will allocate relevant costs between companies holding appointments as water and/or sewerage undertakers (appointed water companies) and water supply and/or sewerage licensees ("**WSSL licensees**"). Appointed water companies and WSSL licensees are required to pay licence fees to Ofwat, the Consumer Council for Water and the Competition and Markets Authority. Ofwat is simplifying the licence fee structure by calculating the flat fee element of licence fees by licence, rather than by licence holder, for both the Consumer Council for Water's and Ofwat's costs.

In July 2018, Ofwat launched a consultation under section 13 of the WIA on two proposed modifications of the licence conditions of 17 water companies, including TWUL. The first proposed modification would prohibit

water companies from showing undue preference towards or undue discrimination against themselves, other water companies (including new appointees (“NAVs”)), water supply and/or sewerage licensees or unlicensed third parties in relation to the provision of certain water and sewerage services. The second proposed modification would place restrictions on the circumstances in which water companies could externally disclose or internally use information they were provided with in relation to the submission of bids to provide certain services or agreements for the adoption of infrastructure.

### ***Periodic Review***

The turnover, profitability and cash flow of TWUL is substantially influenced by the separate water operations and sewerage, and retail price controls and reward/penalty arrangements established by Ofwat in its Periodic Review, and Ofwat’s assessment of delivery against those factors.

Ofwat has a duty to ensure that companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their functions. An adverse price determination (which would adversely affect revenue, profitability and cash flow) may occur as a result of a number of factors. These include an inadequate allowed cost of capital or regulatory assumptions concerning operating expenditure and required capital expenditure and insufficiently accurate revenue 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.

### ***Price controls***

Ofwat is planning to set five separate wholesale price controls from 1 April 2020 for five years; water resources, water network plus, bioresources, wastewater network-plus and Thames Tideway Tunnel. Water resources and bioresources are new price controls and to create their opening regulatory capital value (“RCV”) Ofwat wants companies to allocate the water operations RCV between water resources and water network plus and the waste operations RCV between bioresources and wastewater network plus. Ofwat has concluded that it wants companies to allocate using a focussed allocation of RCV for bioresources and an unfocussed allocation for water resources. A focussed allocation means that the bioresources RCV should be set equal to the estimated value of assets in this price control. As such, the RCV discount (the difference between the lower wastewater RCV and higher asset value) is focussed on wastewater network-plus. Ofwat has published guidance for companies on the appropriate approach for estimating the bioresources asset value (using an economic value approach). An unfocussed allocation means that the water resources RCV as a proportion of the water operations RCV should be set equal to the water resources asset value as a proportion of the water operations asset value. As such, the RCV discount (the difference between the lower water RCV and higher asset value) is unfocussed and shared between water resources and water network-plus. Rather than prescribing an allocation approach, Ofwat has asked each water company to develop and justify an appropriate allocation for their PR19 business plans. It has published guidance on the types of possible approaches. Ofwat has committed to protect the value of the RCV for efficient investment incurred up to 31 March 2020, which will include any RCV allocated to the bioresources and water resources price controls.

RCV may be reduced or discontinued or the methodology for its calculation changed without modification of TWUL’s Licence. This may impact the Issuer’s ability to meet its obligations (including the payment of principal and interest) under the Bonds.

On 4 October 2016, Ofwat issued its final amended reconciliation rulebook that forms part of the price review process concluded in December 2014. Within the reconciliation rulebook, Ofwat has published a revised CIS RCV adjustment calculation. This RCV calculation differs from that accepted in the 2014 Final Determination, and will result in a £249 million (in 2012/13 prices) reduction in TWUL’s opening RCV from 1 April 2020. TWUL has already considered and recognised this adjustment in its financial forecasting and planning. As at



the date of this Prospectus, TWUL are not anticipating any further amendments to the Ofwat reconciliation process and changes to the RCV.

### ***Interim Determinations***

An interim determination of a price limit may be made between Periodic Reviews in specified circumstances, including, in the case of TWUL, the circumstances contemplated by the Substantial Effects Clause in the Licence. An interim determination could reduce the amount of revenue which TWUL is able to charge to its customers, which could have an adverse impact on the Issuer's ability to meet its obligations under the Bonds.

### ***Change of law affecting the Bonds***

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.

### ***Renationalisation of the water industry***

TWUL and the UK water industry generally face increased scrutiny from regulators and key stakeholders, including the UK Government and other political parties. The UK's Official Opposition, the UK Labour Party, stated in its manifesto in the 8 June 2017 UK General Election a commitment that, were it to win the General Election, it would renationalise the UK water industry. This commitment was reaffirmed in a speech by John McDonnell, Shadow Chancellor, at the conference of the UK Labour Party on 24 September 2018. Future intervention by the UK Government in the water markets, or changes in governmental policy, may affect TWUL's ability to meet its obligations under the Bonds.

### ***Changes in specified inflation indices***

In AMP6, TWUL's wholesale revenue is linked to the underlying rate of inflation (currently measured by the Retail Price Index ("RPI")) and as such is subject to fluctuations in line with changes in the rate of inflation which could result in adverse effects to RCV growth, AMP6 wholesale revenue, operating costs and capital expenditure, and customers' ability to pay increased charges.

Growth in RCV is explicitly linked to the RPI, therefore a prolonged period of low inflation and/or deflation would increase the risk that TWUL's financial performance be adversely affected, and thus impact its ability to satisfy its obligations and financial covenants.

Ofwat has indicated through the PR19 Final Methodology that wholesale revenues will be indexed by reference to CPIH, a measure of CPI inflation including housing costs from 1 April 2020. CPIH is the main measure of inflation currently used by the Office for National Statistics ("ONS"). In addition, 50 per cent. of RCV as at 1 April 2020 will be indexed by the RPI and the remainder of the RCV as at that date, plus any new RCV added after that date will be indexed by CPIH. Ofwat intends to implement a full transition to indexation by CPIH as soon as practicable.

The TWU Financing Group has liabilities linked to RPI, including in the form of Indexed Bonds and RPI Linked Hedging Agreements. The mismatch following the change to CPIH and the full transition to that measure which is anticipated could lead to TWUL not having sufficient resources to make payments of interest and principal in particular on these instruments which are linked to RPI. In addition, the transition to CPIH could have financial risks for TWUL in terms of RCV and revenue growth.

### ***Tax risks in AMP6***

The TWU Financing Group has not been in a cash tax paying position since 2006 and TWH has generated tax losses in each accounting period since 2006 some of which have been surrendered to and utilised by TWUL. Historically, TWUL has disclaimed capital allowances in order to claim tax losses from TWH. To the extent permitted by the Tax Deed of Covenant, tax losses have also been surrendered by TWH to group entities outside of the TWU Financing Group, for payment based on the standard rate of corporation tax in place at the time. Under the PR14 Final Determination, TWUL will not receive tax funding from Ofwat for any financial year in AMP6.

The tax losses generated by TWH each year are significant, which provides a considerable margin before the TWU Financing Group becomes cash tax paying. The TWU Financing Group will become cash tax paying only when the taxable profits of TWUL (after reliefs such as capital allowances have been claimed) and the Issuer exceed the available tax losses in TWH.

There are, however, a number of factors that could cause TWUL's, and therefore the TWU Financing Group's, taxable profits to increase and potentially cause the TWU Financing Group to become cash tax paying during AMP6.

Specific identifiable tax risks during AMP6 include:

- Changes in international financial reporting standards ("**IFRS**"): IFRS15 (revenue recognition) will apply from financial year 2018-19, and IFRS16 (leases) will apply from financial year 2019-20. These changes (in particular transitional adjustments) could increase taxable profits in TWUL; and,
- Impact of the TTT Project: from an accounting perspective, revenues from the TTT Project will be recognised in the income statement of TWUL. However, payments by TWUL on to Bazalgette will (until Acceptance) be recognised as prepayments, rather than as expenses in the income statement. The TTT Project revenues will increase over the course of AMP6, thereby increasing taxable profits in TWUL.

It should be noted that the UK government could introduce other tax rules which the TWU Financing Group is not currently aware of as of the date of this Prospectus.

### ***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, in certain circumstances of this nature the Issuer may:

- (a) arrange for the substitution of another company in an alternative jurisdiction (subject to certain conditions); and, failing this,
- (b) redeem 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.

### ***Changes in financial reporting standards***

Terms of the conditions and triggers contained within 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 may be renegotiated as financial and other covenants have been set at levels which are based upon 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, which may change and result in significant changes in the reporting of its financial performance. This, in turn, may necessitate that the terms of the conditions and triggers referred to above are renegotiated.

A revision to IFRS 16, effective from 2019, represents a fundamental change in accounting for leases. It is possible that, as a result, lease liability may be classified as unsecured debt, and taken into account in the calculation of all of TWUL's financial ratios, as set out in the CTA. Changes in lease accounting may also affect how costs associated with lease arrangements are presented in Periodic Review submissions. TWUL is in discussion with Ofwat to mitigate adverse financial impacts, shareholder concern and reputational damage.

### **Trust and reputation**

#### ***Damage to corporate reputation or brand perception***

TWUL's brand and reputation are important assets. TWUL must actively manage its reputation, and that of its senior management and its executive, with various stakeholders including customers, investors, opinion-formers, consumer and community representatives, employees, the media, governments and government agencies, other political parties and regulatory and trade union bodies. Any failure to operate professionally, fairly and with integrity, or the public perception that there has been such a failure or other real or perceived failures of governance, or legal or regulatory compliance could further undermine public trust in TWUL or its management, lead to increased regulatory intervention, harm TWUL's reputation and adversely affect its business, results of operations and overall financial condition.

TWUL has attributed significant attention to this area in the last 12 months, and when Ian Marchant was announced as Chairman in November 2017, an initial focus was to lead a review of Thames Water's corporate structure and governance to ensure that it is as simple and transparent as possible for its customers and stakeholders. As a first step, TWUL announced its intention to close its subsidiaries in the Cayman Islands, which entered the liquidation process on 27 September 2018.

General increases in living costs, including water and sewerage services, and political and economic volatility have increased the level of media coverage of TWUL, and may have had and may continue to have a negative impact on the public's perception of the water industry and its participating companies. The increased use of social media has also allowed and is likely to continue to allow customers and consumer groups to engage, share views, and take part in direct action and other campaigns more readily than before. Any failure to retain the trust of TWUL's customers could lead to campaigns for corporate and regulatory change. In addition, due to the scale of its operations in the UK, TWUL may be subject to increased media scrutiny, in particular regarding compliance with its regulatory obligations and its retail service. Increased media coverage may result in additional or increased government and regulatory scrutiny and / or intervention.

## **Business planning, forecasting and execution**

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

In the wholesale business, TWUL requires significant capital expenditure for additions to, or replacement of, plant and equipment, alongside its operational expenditure. The price controls, set by Ofwat at each Periodic Review, reflect Ofwat's view of total expenditure ("totex") and includes capital expenditure ("Capex") and operational expenditure ("Opex").

If TWUL is unable to deliver its performance commitments and maintain its asset base, at expected levels based on the planned profile of totex, TWUL's 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 allowances mechanism, as a result of unplanned expenditure over and above the plan, required to prevent failure and penalties imposed by Ofwat of up to 10 per cent. of turnover. TWUL's reputation may also be adversely affected as a result of Ofwat's response (or that of other agencies and stakeholders) during the price review.

The wholesale business has been set totex allowances for AMP6. Under the regulatory framework, TWUL faces a proportion of the risk from any totex overspend against these allowances. Additionally, for the retail business, TWUL faces the full risk of cost overspend or underspend against the allowed costs for AMP6. Any additional adjustment to forecast expenditure other than that currently anticipated could adversely affect TWUL's business, operational performance, profitability, financial covenant headroom or financial condition.

### ***Alliances***

The alliances formed by TWUL, to deliver a large element of the infrastructure, non-infrastructure and technology-related activities across the TWU Financing Group in AMP6 may fail to 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 may lead to financial penalties for TWUL under the ODIs.

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

Bazalgette has a principal duty to deliver, operate and maintain the TTT Project; however, if System Acceptance is delayed, or the relevant infrastructure is not available, and Ofwat is satisfied that TWUL contributes to a contravention of the Project Licence, Ofwat may take regulatory enforcement action against TWUL. If the design of the TTT Project does not meet the specification developed by TWUL, with input from the EA, causing system operation to not comply with Environmental Permits, a third party or the EA could take enforcement action against TWUL, and / or modifications may be required to TWUL's existing network, with the costs not necessarily recoverable from TWUL's customers. Project delays and disruption could carry a risk that the sum for TWUL works allowed in the 2014 Final Determination is less than the amount necessary to carry out the works, resulting in TWUL having greater capital expenditure than previously envisaged. Either Bazalgette or the TTT Project could ultimately fail. This could lead to TWUL suffering reputational damage, additional costs or being unable to agree an appropriate funding mechanism for any new proposal to sewage discharges into the River Thames.

The project consultation and planning processes were carried out by TWUL in advance of Bazalgette's appointment. London customers continue to receive their bills from Thames Water and so any delays and problems during construction may be wrongly perceived to be the delays and defaults of TWUL. As such, adverse publicity and increases in customer complaints, resulting in an adverse impact on the SIM performance and resultant regulatory penalty, could arise from issues for which TWUL is not responsible under contract, regulation or statute.

### ***Termination of hedging agreements***

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.

## **Operational risks**

### **Customer service**

#### ***AMP6 Customer service***

Customer service is a high priority for TWUL. Ofwat measure TWUL’s household customer service through the Service Incentive Mechanism (SIM) which compares performance across the industry. TWUL’s performance has been steadily improving since the end of AMP5 however this improvement has not had a major impact on our league table position. TWUL incurred a penalty of £84 million for AMP5 in the 2014 Final Determination (in 2012/13 prices). It is estimated that TWUL will incur a penalty of a similar magnitude in AMP6. The final sum and its form will not be calculated until results have been confirmed for year 4 and final details of the methodology for calculating the reward/penalty have been confirmed by Ofwat.

Customer satisfaction may decline if customers experience poor customer service levels, or if it is perceived that TWUL is failing to maintain and improve service, performance and operational quality. Any failure to maintain consistent quality customer service levels or to improve service levels and operational response could have a material adverse effect on TWUL’s reputation, business, results of operations, and overall financial condition, as well as subject TWUL to the risk of increased regulatory scrutiny that could, in turn, result in sanctions from the relevant authorities and resultant penalties.

### ***Billing systems***

The Retail household business is implementing a new Customer Relationship Management & Billing system (“**CRMB**”) to replace the current legacy platform and is targeted to deliver improvements across the retail household business, including improved customer service and debt management, as a result of the billing and service agility the new solution enables. It is required to ‘go live’ by the end of the fourth year in AMP6. A delay in migration of customers onto the new system would trigger a financial penalty-only ODI.

Implementing a new billing system has a number of inherent risks to TWUL financially, (in terms of revenue collection, the costs of establishing and implementing the CRMB and any cost overruns), operationally (in terms of system usability and resilience) and reputationally (if the accuracy or timing of customer bills is affected). Such implementation could adversely affect stakeholders’ perception of TWUL, if not successfully delivered; and could lead to financial penalties being incurred in relation to the relevant performance commitment under the ODIs

## **People**

### ***Attraction and retention of senior management, skilled personnel and capabilities***

The attraction, development, retention, reputation and succession of senior management and individuals with key skills are critical factors in the successful execution of TWUL’s objectives, and operation of TWUL’s businesses. This is especially relevant in the highly competitive labour markets and regions in which TWUL operates and at times when TWUL is subject to high levels of public scrutiny. Insufficient capability and capacity in high calibre senior management and individuals, or any failure to make appropriate succession plans,

could compromise achievement of TWUL's objectives and could have a material adverse effect on its business, results of operations and overall financial condition.

### ***Labour disputes***

TWUL, as well as some of the third parties it relies upon, have a significant unionised workforce. Employee engagement may decrease and industrial relations could worsen as a result of changes to employment terms and conditions, employment related court decisions, changes to pensions, and as a response to a wider climate of trade union disputes.

Labour disputes, such as strikes, walkouts, claims or other industrial action may disrupt its business. A significant strike or other labour dispute could impact TWUL's ability to provide water, sewerage and retail services to customers. Consequently, its reputation, financial position and operating results may be adversely affected by industrial action.

## **Asset management and performance**

### ***Sewerage asset health***

A significant proportion of TWUL's sewerage system, including most of the directly managed trunk sewers and all of the rising mains, are critical sewers, which means either that the sewers are strategically important, or that in the event of failure, engineering repair costs or social impact costs are likely to be high. There is a risk that asset health may fall below the required level ("**stable status**"). This will trigger a penalty to TWUL and potentially cause unplanned service interruptions to customers, which could have an adverse effect on TWUL's business, operational performance, profitability or financial condition.

### ***Sewer flooding***

TWUL's sewerage systems can reach capacity in certain circumstances, such as prolonged heavy rainfall, 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 may overspend its totex allowance in AMP6 to cover the financial cost of measures to deal with sewer flooding (including any compensation payments to its affected customers), if, for example, rainfall is significantly higher than expected.

In addition, underperformance against the two sewer flooding performance commitments may lead to financial penalties for TWUL under the ODIs. For example, in 2015-16 TWUL confirmed a greater number of additional sewer flooding incidents in AMP5 than had been originally reported. As a result, TWUL faced an increase of £10.3 million in its financial penalty (as an adjustment to RCV), reducing the level of revenue it can charge in future years. (See the section entitled "*Performance commitments and incentives*" below for further details on penalties).

### ***Counters Creek sewer flooding scheme***

For AMP6, TWUL agreed with Ofwat a performance commitment to deliver a £227.6 million (in 2012/13 prices) sewer flooding scheme in the Counters Creek area of West London that will alleviate the risk of sewer flooding following rainfall.

Based on TWUL's current forecast, it is anticipated that the Counters Creek scheme will be delivered before March 2020. In the event that the entire scheme is not delivered by the end of the 2019/20 financial year (but will be delivered in a future AMP), TWUL would incur a penalty of £6.9 million from 2019-20, and in each subsequent year that the scheme is not delivered. Non-delivery penalties could apply if the full benefit was not delivered or if the scheme is cancelled. If the scheme was cancelled outside company control, the ODI penalty is designed to return the company share of allowed costs which have been avoided through non-delivery.

If the scheme was cancelled within company control, the ODI penalty is designed to return the company share of allowed costs plus an incentive payment of up to £33 million (in 2012-13 prices) for foregone benefits to customers.

Since PR14, significant rainfall events in the Counters Creek catchment have provided new information about the catchment and the number of properties at risk of sewer flooding. As a result, TWUL reviewed the overall scheme and now understand that far fewer properties are at risk of flooding and that one element of the scheme, a large strategic sewer, is no longer the best solution for customers.

TWUL have developed an alternative approach that will instead focus on protecting individual properties at risk of sewer flooding with materially less disruption than a strategic sewer.

The Counters Creek specific element of the performance commitment does not envisage a scenario where the scheme is not cancelled but instead delivers a different combination of outputs to those funded at PR14. As the scheme is not being cancelled, nor being delivered late (and instead it is proposed to amend the performance commitment) there should be no ODI penalty; however, this is subject to Ofwat's agreement by the end of AMP6. As a result of the alternative solution, £124.1 million (2012-13 prices) will be saved and half of this underspend will be automatically returned to customers at the end of AMP6 through the totex sharing mechanism. Assuming Ofwat agrees with this, TWUL currently intends to seek agreement with Ofwat as to how the remainder of the underspend be returned to customers.

#### *Water service interruptions due to key site or installation disruption*

Unexpected failure of, or disruption (including process safety failure, criminal acts or a major health and safety incident) at, a key water site or installation (including a reservoir, or treatment works to trunk distribution mains), due to single supply water systems or for any other reason, may cause a significant interruption to the supply of services (in terms of duration or number of customers materially affected). Such failures or disruptions may materially affect the way that TWUL operates, prejudicing its reputation and customer service and result in additional costs. In addition, underperformance against the performance commitment for supply interruptions may lead to financial penalties under the ODIs.

#### ***Land and asset security***

A Regulated Company's ability to grant security over its assets, and the enforcement of such security is 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 has 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, 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 HML and 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).

## **Supply chain management**

### ***Performance of third parties for certain contracts and services***

TWUL has entered into various commercial contracts in respect of certain goods and services. In addition, third party infrastructure will continue to be relied upon in relation to a number of TWUL assets. As with any contractual relationship, there are inherent risks to be considered and mitigated including, among others, counterparty risk, insolvency risk, and litigation risk. Any failure by suppliers to deliver the contracted goods or services, and to adhere to TWUL's Corporate Responsibility and other policies, could have a material adverse effect on TWUL's reputation, business, results of operations and overall financial condition.

## **Health, safety, environment and security**

### ***Contamination of water supplies***

There is a risk (including malicious and the threat of extortion) of contamination of water supplies. In the event of a major contamination of TWUL's water supply, there is likely to be a significant adverse operational impact on TWUL. TWUL would likely incur significant operational expense, be required to pay fines for breaches of statutory requirements and/or regulations and experience a damaging effect on its reputation and brand. Such eventualities are also likely to adversely affect TWUL's profitability or financial condition.

Although TWUL has rigorous systems in place to minimise such risk of contamination and increased operational costs may be recoverable by TWUL through the mechanisms referred to in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" or future Periodic Reviews, TWUL also has



extended insurance coverage to include water resilience insurance protection. However, there is a risk that not all the costs of any such liabilities may be covered by regulatory mechanisms, future Periodic Reviews or insurance and insurance coverage may not continue to be available in the future. In addition, contamination of supplies could exacerbate water shortages.

### ***Catastrophic risk***

Catastrophic events such as dam bursts, fires, earthquakes, floods, prolonged droughts, terrorist attacks, diseases, serious plant failure, systems failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, severe damage reputational harm, 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.

### ***Weather***

There is a risk that extreme weather conditions could cause flooding (including widespread flood inundation of above ground assets), prolonged periods of drought and/or operational difficulties, which could adversely affect TWUL's service performance and give rise to potential penalties, the need to pay compensation to customers or other regulatory action.

## **Technology systems and security**

### ***Loss of data or interruptions to key business systems***

TWUL's operations, including the efficient management and accurate billing of customers, effective asset operations, and successful treasury activities rely on sensitive and highly complex information systems and networks, including systems and networks provided by and interconnected with those of third-party providers. It is critical for TWUL to maintain a high degree of focus on the effectiveness, availability, integrity and security of information systems.

The volume and complexity of cyber security threats are increasing and constantly evolving. It is not certain that TWUL's security measures will be sufficient to prevent, respond to or recover from all possible breaches and TWUL relies on third-party hardware, software and service providers, which are not entirely under TWUL's control, for certain systems and networks. Loss of or misuse of data or interruptions to key business systems could have an adverse impact on the security of critical national infrastructure and TWUL's operational assets, financial performance and customer service metrics. In addition, this could result in breaches of legislation, including, but not limited to, data protection legislation which could lead to significant penalties that could have an adverse impact on TWUL's financial condition and/ or reputation.

## **Compliance risks**

### **Legal and regulatory compliance**

#### ***Regulated Business***

TWUL must comply with all applicable law, regulation and corporate governance obligations, including the extensive and specific legislative and regulatory controls to which the UK water industry is subject. Any failure

or perceived failure by TWUL to comply with such obligations or related requirements could result in substantial fines, loss of licence, legal proceedings and have a negative impact on its operations and reputation.

Notwithstanding TWUL's compliance and/or monitoring, the application of the laws, regulations and standards and the policies published by Ofwat, Defra, Natural England, the Environment Agency, DWI and other regulators, could have an adverse effect on the business, operational performance, profitability or financial condition of TWUL.

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

For AMP6, TWUL has agreed to a number of commitments in relation to its operational performance ('performance commitments') in wholesale operations water and wastewater, TWUL's Enabling Works for the TTT Project 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 ODIs. Failure to deliver agreed performance commitments could have an adverse effect on operational performance, profitability, and reputation.

Whilst the maximum scope of penalties (£1,030 million, in 2012-13 prices) outweighs the maximum scope of rewards (£219 million, 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 £474 million 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 would be levied through an adjustment to revenue with the remainder levied through an adjustment to RCV for AMP7.

In June 2018, TWUL reached an agreement with Ofwat on a package of payments and penalties worth £120 million (some of which is in addition to the performance commitment penalties described above). This agreement concluded an Ofwat investigation which found that TWUL's Board did not have sufficient oversight and control of TWUL's leakage performance. The £120 million package included £65 million in customer rebates and £55 million in automatic penalties incurred by TWUL for missing the commitment it had made to cut leaks. As part of its proposed settlement, TWUL has committed to getting its leakage performance back in line with what it had promised it would deliver for its customers in 2019-2020. TWUL will also publish its performance each month in tackling leaks, appoint an independent monitor to certify the information in its monthly leakage reports, make additional leakage reductions of 15 per cent. by 2025 and increase its customer engagement initiatives on leakage.

### ***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. It is possible that Ofwat may determine that the cost of fulfilling certain obligations is likely to be less than the cost actually incurred by TWUL in fulfilling such obligations. In such circumstances, the funding allowed by Ofwat may not totally cover the actual costs and TWUL would bear this additional element. In practice, the funding allowed by Ofwat is set for a package of obligations and some will cost more and some less. 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.

#### *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).

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.

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 on 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.

In March 2017, TWUL was fined £19.75 million for a number of pollution offences across six sites between 2012 and 2014 that were committed in relation to the River Thames.

#### *Priority Substances Directive*

TWUL is subject to the Environmental Quality Standards (2008/105/EC, usually referred to as the 'Priority Substances Directive'), which was amended by 2013/39/EU. To ensure compliance, there is a risk that TWUL may be required to install the equivalent of drinking water treatment at the sewage treatment works. This would represent a very significant investment for TWUL if it is required to take such action and could have a negative impact on the financial condition of TWUL.

#### *Breach of Licence Conditions*

A failure by TWUL to comply with its Licence Conditions or certain statutory duties (including in relation to the new non-household retail obligations in relation to fair treatment of customers and licensed water suppliers) may result in an Enforcement Order or the imposition of financial penalties of up to 10 per cent. of TWUL's entire regulated turnover for a period of five years after the breach, 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 which could also have an adverse impact on TWUL.

#### *Termination of the 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.

### *Special Administration*

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.

### *Competition in the water industry*

The Water Act 2014 extended retail competition for water and sewerage services to all eligible non-household customers in England from April 2017. Ofwat has taken steps to introduce competition into the water supply and sewerage industry via the WSL regime and the inset, NAV regime, and to further competition in the industry more widely, including in relation to household retail competition and bioresources.

Increased retail (and other) market activity and the introduction of new suppliers within TWUL’s water and sewerage regions could increase the risk for TWUL that Ofwat finds (following a Competition Act investigation) that TWUL has inadvertently breached one of the new requirements, resulting in substantial fines, legal proceedings and reputational damage.

## **Financial risks**

### **Credit and liquidity**

#### *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 TWUL 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.

### ***High leverage***

TWUL's indebtedness is substantial in relation to its RCV and TWUL is entitled under the Finance Documents to increase its leverage further.

Under the Finance Documents, a Conformed Senior RAR of greater than 85 per cent. will, however, result in a restriction on certain payments, such as dividends. As at 31 March 2018, Conformed Senior RAR was 81.3 per cent. The ability of TWUL to improve its operating performance and financial results will (in part) depend upon economic, financial, regulatory and other factors, including fluctuations in UK interest rates and general economic conditions beyond its control. Accordingly TWUL's ability to successfully meet its financing requirements and TWUL's high degree of leverage may 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.

Conformed Senior RAR is an alternative performance measure. It has been calculated as set out in the definition for Conformed Senior RAR. As specified in the audited financial statements of TWUL for the year ended 31 March 2018, TWUL's net debt is £11,336.2 million and TWUL's net debt for covenant purposes (which is the figure used for the calculation of Conformed Senior RAR) is £11,140.4 million. Net debt for covenant purposes excludes amounts owed to group undertakings for which there is no related external debt, accrued interest, unamortised debt issuance costs and discounts, and includes derivatives financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate on one cross currency swap held in TWUL. TWUL's RCV was £13,704.8 million as of 31 March 2018.

Conformed Senior RAR is included in this Prospectus to allow potential Bondholders to better assess TWUL's performance and business and compliance with TWUL's lending covenants. For comparison, the Conformed Senior RAR as at 31 March 2018 was 81.5 per cent.

### ***Future financing***

The TWU Financing Group will need to raise further debt from time to time in order, among other things, to: finance future capital enhancements to TWUL's asset base; 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 refinance the Secured 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.

### ***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 the Secured TWUF Bonds and the Unsecured TWUF Bonds and borrowing under the Liquidity Facilities and Authorised Credit Facilities and entering into Hedging Agreements. 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 or the TWUF/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.

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 or the TWUF/TWUL Loan Agreements and its guarantee under the Security Agreement. In this respect it should be noted that 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. In the unlikely event that TWH is 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. 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 and the TWUF/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). On any such Interest Payment Date, 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 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. There are no assurances, however, 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.

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.



#### *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.

#### *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.

## *Green Bonds*

Prospective investors who intend to invest in the Green Bonds issued under the Programme must determine for themselves the relevance of the information in the relevant Final Terms (for example, regarding the use of proceeds) for the purpose of any investment in the Green Bonds together with any other investigation such as investors deem necessary. In particular, no assurance is or can be given to investors that the Eligibility Criteria or the Eligible Green Portfolio (each as defined in Chapter 9 “*Use of Proceeds*”) will meet or continue to meet on an ongoing basis any or all investor expectations regarding investment in ‘green bond’, ‘green’ or ‘sustainable’ or equivalently-labelled projects.

In connection with the issue of Green Bonds under the Programme, the Issuer and/or any other Obligor may request consultants and/or institutions with recognised expertise in environmental sustainability to issue an opinion (i) confirming that the Eligible Green Portfolio (as defined in Chapter 9 “*Use of Proceeds*” below) has been defined in accordance with the broad categorisation of eligibility for green projects set out by the 2017 Green Bond Principles; and/or (ii) regarding the suitability of the Green Bonds as an investment in connection with certain environmental and sustainability projects (any such opinion, an “**External Review**”). Any External Review is not, nor shall be deemed to be, incorporated in and/or form part of this Prospectus. An External Review may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Green Bonds or the Eligible Green Portfolio. An External Review would not constitute a recommendation to buy, sell or hold securities and would only be current as of the date it is released. Prospective investors must determine for themselves the relevance of any External Review and/or the information contained therein and/or the provider of any External Review for the purpose of any investment in the Green Bonds. In particular, no assurance or representation is or can be given to investors that the External Review will reflect any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply. The Bondholders have no recourse against the provider of any External Review. In addition, although the Issuer may agree at the time of issue of any Green Bonds to certain reporting and use of proceeds obligations it would not be an event of default under the Bonds if the Issuer fails to comply with such obligations. A withdrawal of an External Review may affect the value of such Green Bonds and/or may have consequences for certain investors with portfolio mandates to invest in green assets.

Furthermore, it should be noted that no member of the TWU Financing Group, no Dealer nor any other person makes any representation as to the suitability of the Green Bonds to fulfil environmental and sustainability criteria required by prospective investors. No member of the TWU Financing Group is responsible for any third party assessment of the Eligibility Criteria. Nor is any Dealer responsible for (i) any assessment of the Eligibility Criteria, (ii) any verification of whether the Eligible Green Projects (as defined in Chapter 9 “*Use of Proceeds*”) meet the Eligibility Criteria, or (iii) the monitoring of the use of proceeds. Investors should refer to the Issuer’s website and the External Review for further information. The External Review provider has been appointed by the Issuer and/or the relevant Obligor.

## *Reform of LIBOR, EURIBOR*

LIBOR, EURIBOR and other rates and indices which are deemed to be “benchmarks” are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Bonds linked to such a “benchmark”.

Regulation (EU) 2016/1011 (the “**BMR**”) was published in the official journal on 29 June 2016 and applied from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that applied from 30 June 2016). The BMR could have a material impact on any Bonds linked to LIBOR,

EURIBOR or another “benchmark” rate or index, in particular, if the methodology or other terms of the “benchmark” are changed in order to comply with the terms of the BMR, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of, the published rate or level, of the benchmark. In addition, the BMR stipulates that each administrator of a “benchmark” regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. There is a risk that administrators of certain “benchmarks” will fail to obtain a necessary licence, preventing them from continuing to provide such “benchmarks”. Other administrators may cease to administer certain “benchmarks” because of the additional costs of compliance with the BMR and other applicable regulations, and the risks associated therewith.

An example of such benchmark reform was the announcement by the UK Financial Conduct Authority on 12 July 2018 that the LIBOR benchmark may cease to be a regulated benchmark under the BMR (the “**FCA Announcement**”). The FCA Announcement indicates that steps are being taken to transition from the LIBOR benchmark to alternative interest rate benchmarks following the FCA’s announcement on 27 July 2017 that it will no longer compel banks to submit rates for the calculation of the LIBOR benchmark. The potential elimination of the LIBOR benchmark could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Bonds linked to LIBOR. Any such consequences could have a material adverse effect on the value and return on any such Bonds.

More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of “benchmarks”, could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain “benchmarks”, trigger changes in the rules or methodologies used in certain “benchmarks” or lead to the disappearance of certain “benchmarks”. Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the value of and return on any Bonds linked to a “benchmark”.

The Conditions provide that the Rate of Interest in respect of the Bonds shall be determined by reference to the Relevant Screen Page (or its successor or replacement page). In circumstances where neither the Relevant Screen Page nor any successor or replacement page is available, due to LIBOR being discontinued, the Conditions provide for the Rate of Interest to be determined by the Agent Bank (or Calculation Agent, if applicable) by reference to quotations obtained from the banks whose offered rates would have been used for the purposes of the relevant page had LIBOR not been discontinued.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR), the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR was discontinued, and if LIBOR is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Bonds, so that the Bonds will, in effect, become fixed rate notes utilising the last available LIBOR rate. Uncertainty as to the continuation of LIBOR, the availability of quotes from reference banks, and the rate that would be applicable if LIBOR is discontinued may adversely affect the value of, and return on, the Bonds.

The impact of these conditions could be detrimental to the Issuer and/or the Guarantor and, in each case, could adversely affect: its business, operations and profitability; its solvency and the solvency of its counterparties, custodians, customers and service providers; the value and liquidity of its assets and liabilities and the credit rating of the Bonds.

### ***Pension commitments***

TWUL has defined benefit pension schemes, which are subject in the UK to triennial actuarial valuations with the most recent based on assumptions as at 31 March 2017. There is a deficit repair plan in place, as agreed between TWUL's directors and scheme trustees, to restore each scheme to a fully funded position. As a result of future triennial valuations, the deficit may increase and TWUL will in these circumstances seek to revise the deficit repair plan. If TWUL is unable to agree a revised deficit repair plan with its trustees subsequent to valuation, there is a risk that it could face enforcement action instigated by the pensions regulator and this could have a negative impact on TWUL's financial condition.

### ***Bad debt and non-recovery of customer debt***

The WIA prohibits the disconnection for non-payment of a water supply for domestic use in any premises and or the limiting of a supply with the intention of enforcing payment for domestic use in any premises. This presents difficulties for TWUL in recovering full and timely payment from customers. Additionally, the area in which TWUL operates covers London and the Thames Valley, where there is a greater proportion of people living in rented accommodation as compared with other parts of the UK. This has the potential to increase revenue loss due to non-payment of debt as the movement of people is more transient. Allowance is made by Ofwat in the price controls at each Periodic Review for a proportion of debt deemed to be irrecoverable. Furthermore, any increase in customer bills may increase customer dissatisfaction and have an adverse impact on full and timely customer payment. In respect of their non-household charges, in July 2016, TWUL entered into a service level agreement with Castle under which Castle collects payments as agent for TWUL in respect of any unbilled non-household customers revenue between the agreement date and the 31 March 2017 (the date on which the retail non-household market was opened). Non-recovery of customer debt, above the allowance made by Ofwat, is a risk to TWUL and would cause TWUL's profitability to suffer.

### ***Retailer non-household counterparty credit***

The Water Act 2014 established the framework to create a market that has set out arrangements for the financial interface between retailers and wholesalers in the non-household market. These include the credit terms governing the wholesale charge in favour of the relevant wholesale undertaker in a particular geographic area that retailers will incur from time to time.

These credit terms include prepayment and post-payment options for retailers subject to their financial condition (such as credit rating) at the relevant time. There may be a risk of non-payment or delayed payment of TWUL's wholesale charge from the relevant retailer, which could adversely affect TWUL's business, profitability or financial condition.

## **CHAPTER 2**

### **THE PARTIES**

<b>Issuer</b>	Thames Water Utilities Finance plc, a company incorporated with limited liability in England and Wales (registered number 2403744). The Issuer is a wholly-owned subsidiary of TWUL and is the funding vehicle for raising funds to support the long-term debt financing requirements of TWUL.
<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 “ <b>WIA</b> ”) for the areas described in the Instrument of Appointment. TWUL is a wholly-owned subsidiary of TWH.
<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>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 and the Issuer under each Finance Document in favour of the Security Trustee. In addition, TWUL 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 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 and the Issuer.
<b>Thames Water Group</b>	Kemble Water Holdings Limited and its Subsidiaries from time to time.
<b>Arranger</b>	Barclays Bank PLC.
<b>Dealers</b>	Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Commonwealth Bank of Australia (ABN 48 123 123 124), HSBC Bank plc, J.P. Morgan Securities plc, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, National Australia Bank Limited (ABN 12 004 044 937), NatWest Markets Plc, RBC Europe Limited, Scotiabank Europe plc, SMBC Nikko Capital Markets Limited and Société Générale will act as dealers (together with any other dealer appointed from time to time by the Issuer and the other Guarantors,

	<p><b>‘Dealers’</b>) either generally with respect to the Programme or in relation to a particular Tranche, Sub-Class, Class or Series of Bonds.</p>
<b>Financial Guarantors</b>	<p>The Issuer may arrange for financial guarantee companies (each a <b>‘Financial Guarantor’</b>) 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.</p>
<b>Secondary Market Guarantors</b>	<p>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 <b>“Secondary Market Guarantor”</b>). 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.</p>
<b>Hedge Counterparties</b>	<p>Certain financial institutions from time to time which enter into Hedging Agreements with the TWU Financing Group as counterparties and which comply with certain criteria set out in the Hedging Policy set out in the Common Terms Agreement and described in Chapter 7 <i>“Overview of the Financing Agreements”</i>. The name and a brief description of each current Hedge Counterparty is set out in Chapter 11, <i>“Description of the Hedge Counterparties”</i>. The TWU Financing Group may enter into further Hedging Agreements from time to time which comply with the Hedging Policy.</p>
<b>Bond Trustee</b>	<p>Deutsche Trustee Company Limited acts and will act as trustee (the <b>“Bond Trustee”</b>) for and on behalf of the holders of each Class of Bonds of each Series (the <b>“Bondholders”</b>).</p>
<b>Security Trustee</b>	<p>Deutsche Trustee Company Limited acts and will act as security trustee for itself and on behalf of the Secured Creditors (as defined below) (the <b>“Security Trustee”</b>).</p>
<b>Secured Creditors</b>	<p>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.)</p>
<b>DSR Liquidity Facility Providers</b>	<p>Certain financial institutions assembled from time to time by the Thames Water Group (each a <b>“DSR Liquidity Facility Provider”</b> and together, the <b>“DSR Liquidity Facility Providers”</b>).</p>

<b>O&amp;M Reserve Facility Providers</b>	Certain financial institutions assembled from time to time by the Thames Water Group (each an “ <b>O&amp;M Reserve Facility Provider</b> ” and together, the “ <b>O&amp;M Reserve Facility Providers</b> ”).
<b>Credit Facility Providers</b>	Certain financial institutions assembled from time to time by the Thames Water Group (each a “ <b>Credit Facility Provider</b> ” and together, the “ <b>Credit Facility Providers</b> ”).
<b>EIB</b>	European Investment Bank, acting through its office at 98-100boulevard 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 “ <b>Principal Paying Agent</b> ” and, together with any other paying agents appointed by the Issuer, the “ <b>Paying Agents</b> ”) 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 “ <b>Agent Bank</b> ”) 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 “ <b>Account Bank</b> ”).
<b>Cash Manager</b>	TWUL (the “ <b>Cash Manager</b> ”), or during a Standstill Period, The Royal Bank of Scotland plc (the “ <b>Standstill Cash Manager</b> ”).
<b>Registrar and Transfer Agent</b>	Deutsche Bank Trust Company Americas will act as transfer agent (the “ <b>Transfer Agent</b> ”) 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 “ <b>Registrar</b> ”) 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 “ <b>Flipper Bond Trustee</b> ”) and each class of Legacy Bonds (in such capacity, the “ <b>Legacy Bond Trustee</b> ”) and, together with the Flipper Bond Trustee and the Legacy Bond Trustee, the “ <b>TWUF Bond Trustees</b> ” and each a “ <b>TWUF Bond Trustee</b> ”).

## 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 Final Terms or Drawdown Prospectus (as may be applicable).</p>
<b>Issue Dates</b>	30 August 2007 (the “ <b>Initial Issue Date</b> ”) and thereafter, the date of issue of a Tranche of Bonds as specified in the relevant Final Terms or Drawdown Prospectus (each an “ <b>Issue Date</b> ”).
<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 “<i>Subscription and Sale</i>”.</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</p>



	<p>unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See Chapter 12 “<i>Subscription and Sale</i>”.</p>
<b>Currencies</b>	<p>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.</p>
<b>Maturities</b>	<p>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).</p>
<b>Issue Price</b>	<p>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.</p>
<b>Interest</b>	<p>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.</p>
<b>Form of Bonds</b>	<p>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 “<i>The Bonds</i>”. Registered Bonds will not be exchangeable for Bearer Bonds.</p>
<b>Fixed Rate Bonds</b>	<p>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.</p>
<b>Floating Rate Bonds</b>	<p>Floating Rate Bonds will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(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</li> </ul>

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, the Harmonised Index of Consumer Prices, CPI or CPIH (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, 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 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 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**

TWUCFL 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 (and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL as the principal debtor and TWUCFL has ceased to be a party).

#### **DSR Liquidity Facility**

Pursuant to the terms of each DSR Liquidity Facility Agreement, the DSR Liquidity Facility Providers make available to the Issuer a 364-day revolving credit facility to enable drawings to be made by the Issuer 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 to make payments due on the Bonds, the Unsecured TWUF Bond Debt, the Secured TWUF Bonds or certain other Senior Debt. The Issuer is 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 Euronext Dublin for the Bonds issued under this Programme to be admitted to trading on Euronext Dublin'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 Euronext Dublin. 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 Final Terms or Drawdown Prospectus (as may be applicable).

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 European Union, the United Kingdom 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*”.

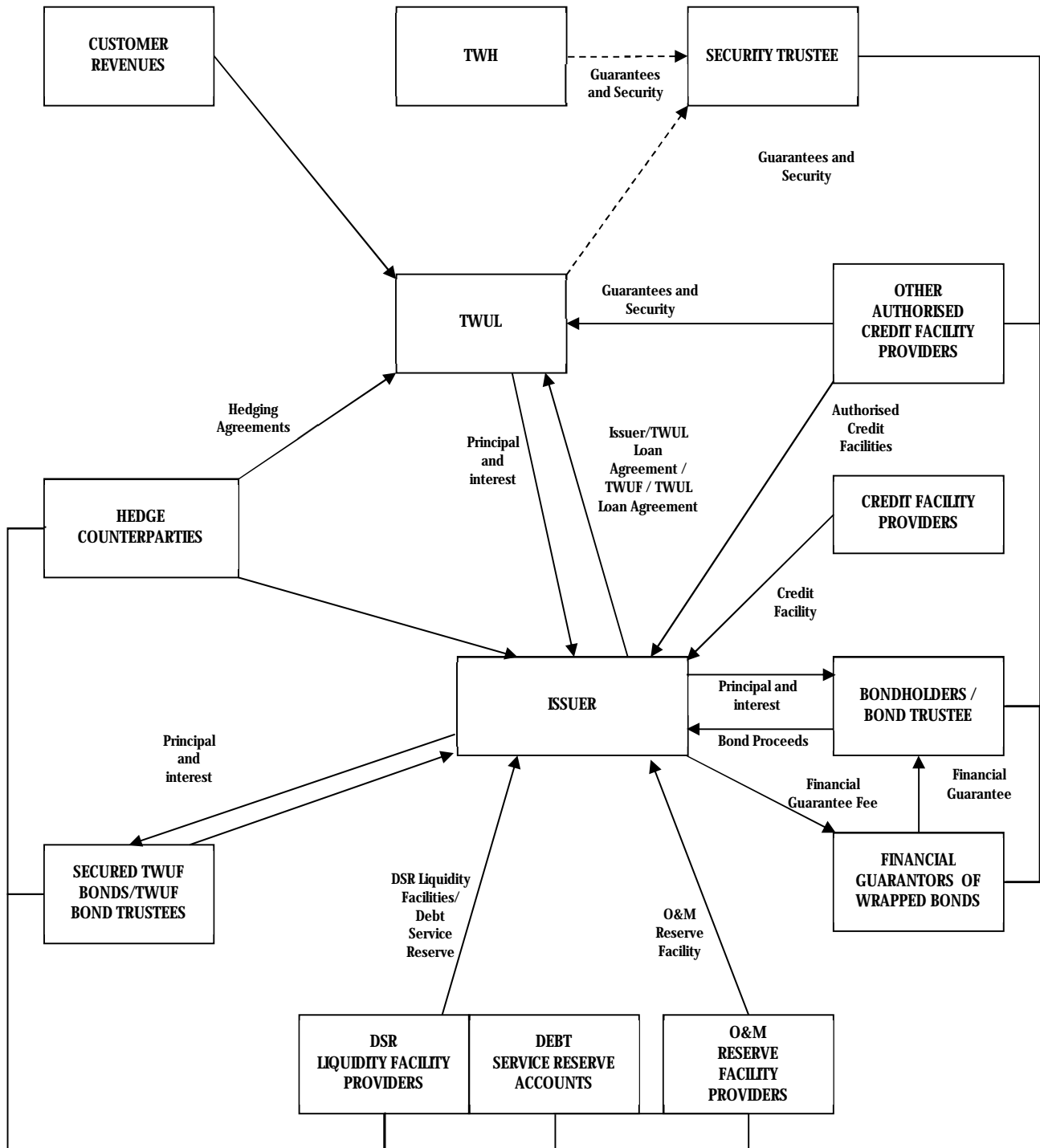
**Investor Information**

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.

An abridged version of each such Investors’ Report has been and will be made available by TWUL and the Issuer on TWUL’s website. In addition, a long-form version of each such Investors’ Report has been and will be provided to the Security Trustee, each Rating Agency and each Facility Agent in accordance with the provisions of the CTA.

## CHAPTER 4 OVERVIEW OF THE FINANCING STRUCTURE

### PROGRAMME STRUCTURE



- The Issuer may under the Programme issue Class A Wrapped Bonds (guaranteed as to scheduled principal and interest by a Financial Guarantor), Class A Unwrapped Bonds, Class B Wrapped Bonds (guaranteed as to scheduled principal and interest by a Financial Guarantor) and Class B Unwrapped Bonds.
- The Issuer 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 Issuer has on-lent and will on-lend to TWUL the proceeds of each Series of Bonds and each advance to the Issuer under each Authorised Credit Facility, pursuant to an Issuer/TWUL Loan Agreement. The Issuer has on-lent to TWUL the proceeds of the Secured TWUF Bonds pursuant to the TWUF/TWUL Loan Agreements.
- The Finance Lessors provide financing of equipment to TWUL.
- Where applicable, each of TWUL 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 save that the economic effect of any hedging entered into by TWUF in respect of the Secured TWUF Bonds 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. The Issuer's obligations to repay principal and pay interest on the Secured TWUF Bonds are intended to be met primarily from the payments of principal and interest received from TWUL under the TWUF/TWUL Loan Agreements and where such payment has been hedged under a Hedging Agreement, under the relevant Hedging Agreement. Each Issuer/TWUL Loan Agreement and each TWUF/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 and the TWUF/TWUL Loan Agreements have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Bonds or the Secured TWUF Bonds.
- The Issuer 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 to meet interest payments on the Bonds and Secured TWUF Bonds and certain other payments ranking in priority to or *pari passu* with the Bonds (excluding any principal repayments on Bonds).

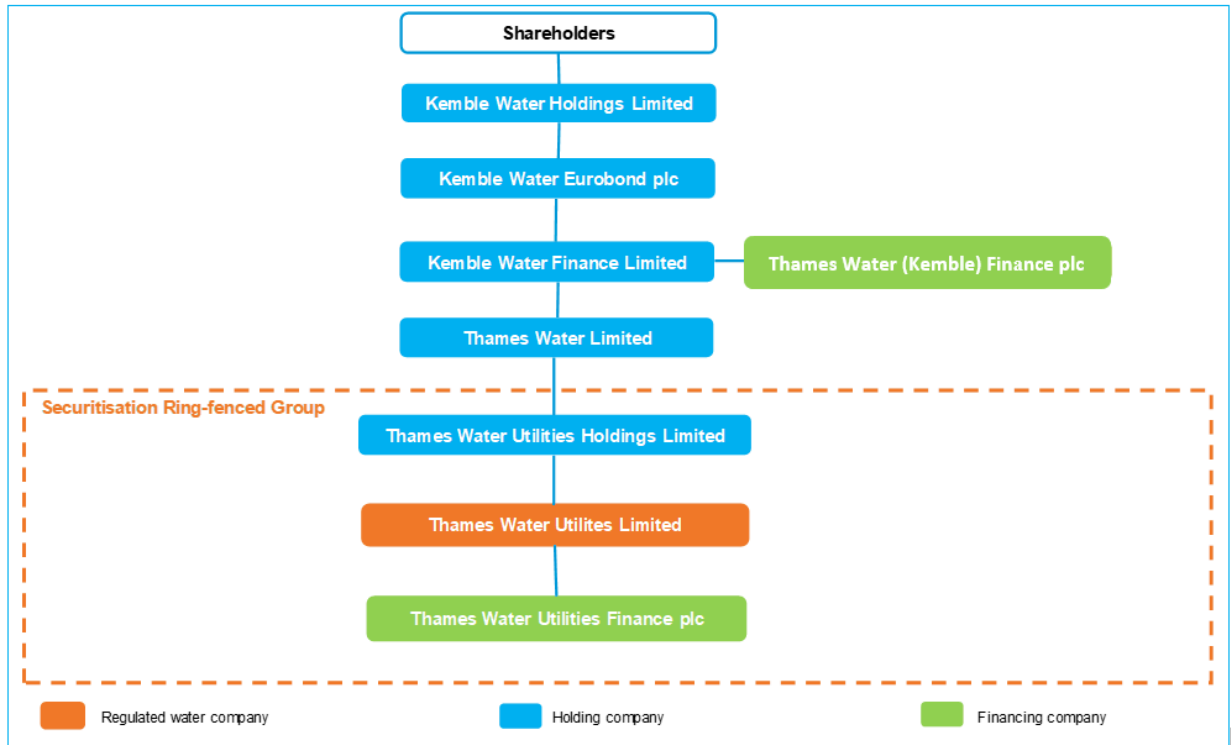
- The respective obligations of TWUL and the Issuer to each of their Secured Creditors are guaranteed by each other in favour of the Security Trustee. TWH has in turn guaranteed in favour of the Security Trustee the respective obligations of TWUL and the Issuer.
- The obligations of each of TWUL, the 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 5

### DESCRIPTION OF THE TWU FINANCING GROUP

*TWUL is subject to economic regulation as further described in Chapter 6 of this Prospectus. As such, TWUL's operational performance can have an impact on its financial performance through the financial reward and penalty mechanisms which Ofwat has in place to incentivise companies to deliver on their commitments. In TWUL's view, such operational performance measures are not financial measures and as such not alternative performance measures unless specifically disclosed as such.*

#### TWU Financing Group



The above chart sets out an abridged version of the Kemble Water Holdings Limited Group Structure.

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

#### TWUL

##### *Operational and financial overview*

TWUL is the largest provider of water and sewerage services in the UK, based on the number of customers served and a stated RCV of £13.7 billion as at 31 March 2018 (31 March 2017: £12.9 billion). It is the principal trading company of the Kemble Water Group.

RCV is an alternative performance measure determined by Ofwat. It is derived in line with Ofwat's required methodology and is a key component part of the calculation of TWUL's allowed revenue. It is included in this Prospectus to allow potential Bondholders to better assess TWUL's performance and business.

#### Key financial data<sup>1</sup>

	2017/18	2016/17
Revenue	£2,044.9 million <sup>(2)</sup>	£2,060.1 million <sup>(2)</sup>
Revenue (Appointed Business only <sup>(1)</sup> )	£2,020.1 million	£2,045.0 million
Operating expenditure	£1,595.5 million <sup>(2)</sup>	£1,515.4 million
Operating profit	£543.5 million <sup>(2)</sup>	£638.4 million <sup>(2)</sup>
Capital expenditure (excluding intangibles)	£1,087.0 million	£1,115.3 million
Average number of persons employed in the year	5,421	5,100

<sup>(1)</sup> Revenue is for the Appointed Business only (defined below). All other figures not marked as Appointed Business only, are the total statutory TWUL figures.

<sup>(2)</sup> Includes amounts relating to Bazalgette Tunnel Limited ("BTL"), the independent company appointed to construct the Thames Tideway Tunnel ("TTT"). With effect from 1 April 2016, as agreed with Ofwat, TWUL's bills to its wastewater customers include amounts relating to construction costs of the TTT. As a result, TWUL recognises revenue in respect of the amounts billed. As cash is collected, it is passed to BTL. No cash is retained by the Company.

Amounts disclosed for both 2017/18 and 2016/17 in the table above are EU-IFRS amounts.

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

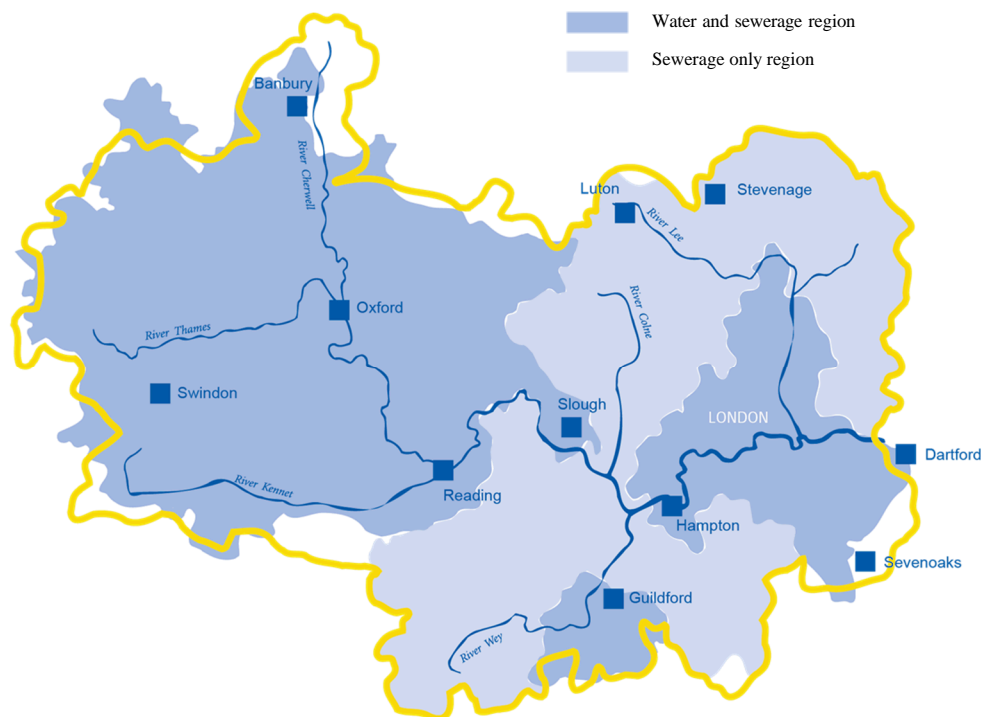
<sup>1</sup> Source: All figures are as quoted in the 2017/18 TWUL combined Annual Report and Annual Performance Report, including the figures for 2016/17, except for 2016/17 Revenue (Appointed Business only) which is taken from TWUL's 2016/17 Annual Performance Report).

### ***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, where a third party is the statutory undertaker for a smaller, defined area within TWUL’s overall service area.

TWUL supplies drinking water to over 9 million customers and is responsible for the removal and treatment of wastewater from circa 15 million customers, serving approximately a quarter 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 (NAV) appointments as described above.

### ***Economic regulation***

TWUL’s Appointed Business and results are affected by the regulated tariffs which TWUL may charge its customers as agreed with Ofwat through the Periodic Review Process, 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.

Ofwat issued the 2014 Final Determination for the regulatory period 2015-2020 on 12 December 2014 (the ‘**2014 Final Determination**’) and this was accepted by Thames Water in January 2015. The 2014 Final Determination contained five separate price controls: three wholesale controls covering water, wastewater

and TWUL's interface works for the TTT Project, and two retail controls covering household and non-household customers. In addition, from February 2016, TWUL began to include in its wastewater customers' bills an additional (non-appointed) charge for TTT construction costs. Cash collected in relation to this additional charge are passed through to BTL when received by TWUL. This additional charge is not (and will not be) separately itemised on the bill. Prices for the average household customer are expected to decrease over the course of the regulatory period (including the IP Charges). These charges reflect £9.6 billion of allowed revenues, £8.3 billion allowed expenditure and a wholesale allowed return (cost of capital) of 3.6 per cent. for the period. (All amounts and percentages shown in 2012-13 price levels.) Following the opening of the non-household retail market on 1 April 2017, TWUL exited the retail non-household market with effect from that date.

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 following five-year regulatory period.

The general characteristics of Ofwat's 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 approach is the focus on outcomes and ODIs. The six agreed outcomes are described by TWUL as:

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

These outcomes are supported by 55 performance commitments with financial incentives attached to 27 of these through ODIs. The main financial incentives are summarised later in this chapter under "*AMP6 Key Committed Performance Levels and Financial ODIs*".

Whilst the Final Determination includes provisions for TWUL recognising the financial effects of its ODI performance in the following AMP, TWUL has decided to bring forward bill reductions for penalties incurred during the first three years of this regulatory period (2015/16, 2016/17 and 2017/18) into the current AMP. This decision is primarily a result of TWUL missing its leakage target in 2016/17 for the first time in 11 years.

Ofwat will issue the 2019 Final Determination for the regulatory period 2020-2025 in December 2019 (the "**2019 Final Determination**"), which will set out price controls, service commitments and the wider incentive framework for six separate binding controls: water resources; water network plus; wastewater network plus; bioresources; residential retail; business retail (which is no longer applicable to TWUL since it has exited this market). In addition, a seventh price control (applicable to TWUL only) in respect of TTT will be set out in the 2019 Final Determination. This is further described in Chapter 6 of this Prospectus.



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 Chief Executive Officer of Thames Water, and his Executive Team have agreed that everything they do will be consistent with the following five principles, which underpin the TWUL's strategy:

1. Deliver brilliant customer engagement to create lifelong advocacy.
2. Use data from customers, operations and the environment to make better decisions.
3. Invest in resilient systems and assets.
4. Protect and enhance the environment.
5. A collaborative and capable team, dedicated to serving customers.

The overall TWUL strategy is supported by distinct strategies for each of the services the business delivers (as outlined below), and the strategies of each are aligned to drive delivery of the overall TWUL strategy. TWUL has published, on its website, its business plan for the current five-year regulatory period (2015 to 2020) and its draft Water Resources Management Plan for the 80 year period (2020 to 2100) on its website.

In July 2016, TWUL announced the disposal of its economic interest in its retail non-household business to Castle Water Limited ("**Castle**"). With effect from 1 April 2017, the remaining legal title and regulatory obligations of TWUL in relation to its non-household retail business were transferred to Castle. This transaction will allow TWUL to concentrate on its regional wholesale and retail household businesses.

### ***TWUL business model***

TWUL implemented a new business model in early 2015, which was driven by the shifting political landscape, new laws and environmental regulations, technological advances, and changes in customers' expectations and designed to align to Ofwat's price controls for AMP6.

TWUL's business units, each with its own management structure and leadership team, which existed during the first three years of the current five-year regulatory period were as follows:

- Wholesale water;
- Wholesale wastewater; and
- Retail (retail non-household is included for the first two years only).

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

The model also enabled the wholesale elements of the business to interact with the retail activities in the same manner as any other third-party retailer, in line with Ofwat's requirements since competition was introduced into the retail non-household market in April 2017.

While this business model was designed to strengthen TWUL's operations and facilitate quicker decision making, it has been constantly under review to ensure it enabled the ability to deliver tailored responses to the changes that will occur in the different sectors of the water industry. As a result, in April 2018, TWUL announced it was simplifying its structure to better reflect how customers view Thames Water and therefore breaking down the barriers between the business units.

Under 'One Thames', the business will consist of the following functions: Operations and Customer Experience. These functions will be supported by a number of support functions: Strategic Planning and Investment, Delivery Office, Finance, HR, Digital, Strategy and Regulation and External Affairs.

Further details on each of functions responsible for the services that TWUL provides are summarised in the sections below.

### ***TWUL outsourcing activities***

In order to support delivery across the business, TWUL has formed a number of alliances and long-term strategic partnerships with selected industry leading companies, designed to align operational technology to encourage innovation and cost saving across the TWU Financing Group.

The Infrastructure Alliance is responsible for delivering water network improvements, leakage management and connecting new customers to the network for TWUL throughout AMP6. The Infrastructure Alliance is a partnership between TWUL and two new joint ventures, and is expected to deliver over £1 billion of work to support TWUL's delivery of its performance commitments by 2020. Following TWUL's recent leakage performance, significant changes have been made to the Infrastructure Alliance contract, with all key decisions now lying with TWUL's senior managers and not with contractors. These changes also include changes to the incentive mechanisms for the alliance partners.

The eight2O Alliance comprises two design and build joint ventures, a programme manager, and a technology innovator, with TWUL acting as both client and partner. The eight2O Alliance is responsible for carrying out between £2 billion and £2.5 billion of capital delivery work over AMP6 for TWUL across the wholesale business.

The Technology and Transformation Alliance aligns information technology and operational technology to encourage innovation and cost savings.

In addition, TWUL outsources other services, including payroll. In all cases of outsourcing, appropriate risk assessment and management are applied to such outsourcing and transfer pricing rules are properly observed. These arrangements are a reflection of Good Industry Practice and TWUL's future strategy.

### **Operations**

Operations is responsible for all aspects of our water and wastewater operations.

Operations' remit includes, all aspects of water abstraction and resources management, water treatment and distribution, as well as all aspects of wastewater collection, transport, treatment and disposal, 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, transports and treats wastewater ensuring it is compliant with regulations, and that any treated wastewater discharged to watercourse does not impact the existing water quality.

Operations 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 over nine million customers, ranging from the urban metropolis of London, to the Thames Valley and surrounding area, with its mixture of fast-growing towns and countryside. Operations is also responsible for the removal, treatment and safe disposal of wastewater with minimal impact on the environment, for its 15 million customers.

Operations' mission is to be the on-the-ground face of Thames Water to ensure the safe and dependable delivery of drinking water and the removal of wastewater from customers' homes - mitigating against weather and dealing with incidents quickly to minimise disruption for TWUL's customers.

Operations' purpose is to ensure a safe and dependable water and wastewater supply for both our customers and the environment, through proactive, preventative operations and maintenance, and the utilisation of technology to enable 'smart' system optimisation.

The overall ambition is:

- To proactively maintain TWUL's assets to deliver a drastic reduction in the number/severity of events
- To halve TWUL's current leakage levels in a cost-effective way in the longer term
- To create, collect and provide data to enable the planning process
- To reach zero pollution, via industry leading standards and processes
- To achieve power sustainability 'zero input power', only using the grid as a back-up option
- To achieve upper quartile employee net promoter score
- To eliminate major health and safety events, through monitoring and continuous improvement

The following principles underpin the ability of Operations to deliver its ambition:

- Driving the elimination of waste through the optimisation of the system and on-the-ground technical delivery
- Proactively monitoring and maintaining assets, improving our data quality, minimising events and limiting our impact on the environment
- Accurately planning and effectively scheduling proactive and reactive work to meet customer expectations
- Defining optimal resourcing (people) and building internal capabilities while performance managing external resources
- Managing events, when they do occur, coordinating across the business to minimise customer impact

Underpinning the successful delivery of Operations' plans are two alliances, both launched at the start of AMP6: the Infrastructure Alliance and the eight2O Alliance. The alliances include partners with the insight, innovation, design, and delivery capabilities to deliver TWUL's regulatory commitments. The alliances have been selected to work as an integral part of TWUL's operational delivery and to ensure the implementation of solutions that are cost-effective over the long-term and improve the reliability of both our water and wastewater networks. The wastewater network is maintained by a single third-party contractor and a number of sub-contractors. This should enable delivery of a consistent, high quality service in the long term.

### ***Water abstraction & management of water resources***

TWUL abstracts, treats, and distributes drinking water to around nine million customers across London, the Thames Valley and surrounding area, with a 99.96 per cent. (for the calendar year 2017) 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 current plan sets out how water companies aim to meet predicted demand for water for the 25 year period from 2015 to 2040, ensuring enough water is available to meet customers' needs. TWUL has submitted its draft Water Resources Management Plan covering an 80-year period from 2020-2100 to Defra in December 2017. TWUL's water resources strategy is to manage demand to the greatest extent possible, including: (i) further reducing leakage; (ii) moving progressively to become a fully metered company; and (iii) actively promoting efficient use of water. TWUL recognises that the population in its area of operation is growing rapidly and it is preparing to meet the increased demand that this will drive.

### ***Water treatment***

Given that water is a finite resource, TWUL 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 percentage) of 39 parameters, to provide an overall assessment of compliance against these standards at customers' taps. This allows a comparison of drinking water quality across all water companies within England and Wales. In the calendar year 2017, TWUL's MZC percentage was 99.96 per cent. To ensure TWUL provides a consistently high quality product to its customers, more than 475,000 water quality tests are performed on water samples each year. 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***

TWUL distributes treated water through its c.31,000 km of trunk and distribution mains. The focus is on maintaining a network to ensure it is fully compliant with all drinking water standards and maintaining a network that can deliver this water 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 of 1.3 billion litres and transfers water from five connected treatment works to customers in London. During 2010, TWUL completed an extension programme which allows the Ring Main to supply customers over a wider area and in doing so provides a greater distribution network 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. In 2016/17, TWUL missed its leakage target for the first time in eleven years. The leakage level for that year was 677 MI/d against a committed performance level of 630 MI/d. As a result, TWUL incurred an ODI penalty of £8.6 million. To address the missed leakage target, TWUL committed to a recovery plan aimed at bringing TWUL's leakage performance back on track with its leakage targets by the end of the regulatory period (606 MI/d). TWUL's leakage level for 2017/18 was 695 MI/d and the leakage recovery plan is currently on track to deliver the 606 MI/d target by the end of the regulatory

period. On 14 June 2017, Ofwat announced that it had opened an investigation to consider whether TWUL had contravened any of its statutory obligations and therefore whether to take any enforcement action over and above the automatic ODI penalty. TWUL responded to all Ofwat's information requests during the period of the investigation. On 7 June 2018, Ofwat published its 'Notice of Ofwat's proposal to impose a penalty on Thames Water Utilities Limited' (**'Notice'**). This Notice sets out the key findings of their investigation, particularly with regards to shortcomings in overall governance and compliance with statutory obligations. Additionally, the Notice sets out undertakings TWUL has committed to in future periods, including the return of £120 million to customers.

The condition (“**asset health**”) of TWUL's water operations above ground (non-infrastructure) network is stable, while the condition of the infrastructure (below ground) network remains at marginal. The condition of the below ground network is determined by a number of measures, including the number of bursts and supply interruptions over 12 hours. In 2017/18 TWUL did not meet its target for supply interruptions of more than 12 hours nor its target for supply interruptions of more than four hours and therefore incurred penalties of £4.7 million and £10.7 million respectively.

### ***Wastewater collection***

The collection of wastewater involves a network of over 109,000 km of sewers and over 6,700 sewage pumping stations. The number of sewage pumping stations is expected to increase throughout the remainder of the AMP with the adoption of eligible private sewage pumping stations, as further outlined below. 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. (See the section entitled “*Sewerage Asset Health*” in Chapter 1 “*Risk Factors*” for further details on TWUL's sewerage system).

AMP6 has seen TWUL begin to adopt eligible private sewage pumping stations, as required by the Water Industry (Schemes for Adoption of Private Sewers) Regulations 2011. As at 31 March 2018, TWUL has adopted 1,891 private sewage pumping stations. It is expected that this exercise will result in c.2000 sites being adopted during the course of AMP6, with additional capital expenditure of around £44 million and operating expenditure of around £7 million.

### ***Wastewater treatment***

Wastewater is treated at 351 sewage treatment works, which are monitored to ensure that the treatment works comply with regulatory standards, through risk assessments and focused investment. During the 2017 calendar year, TWUL achieved a significant reduction of 52 per cent. in the number of pollution incidents, compared to 2013. The reduction is a result of increased investment and improvements to monitoring and site operations. TWUL's sewage treatment works discharge compliance for the calendar year 2017 improved from 98.28 per cent. in 2016 to 99.43 per cent. in 2017.

### ***Disposal of bioresources***

The production, treatment and recycling, reuse or disposal of sewage bioresources is controlled by comprehensive legislation. Treated bioresources is recycled to agricultural land as a biological fertiliser. Untreated bioresources 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. Bioresources will be subject to a separate price control from AMP7.

## **Customer Experience**

### ***Description***

Customer Experience provides customer facing activities, including billing, payments, debt management, meter readings, customer queries, correspondence, complaints handling, and everyday water efficiency advice in relation to household customers.

Additionally, Customer Experience has responsibility for Wholesale Market Services who are responsible for the billing, payments, debt management, correspondence and complaints handling for retailers operating in the non-household retail market. The Customer Experience function bears the risk of bad debt from both household customers and retailers.

As the customer-facing function of Thames Water, Customer Experience seeks to deliver high quality products and proactively resolve customer issues, providing a service that is personal, affordable, valued and right first time.

### **Household customers**

TWUL provides around 3.4 million households with water and wastewater services. A further 1.9 million households receive the TWUL wastewater service only and are billed on TWUL's behalf by the relevant water supply company.

### **Non-household business**

TWUL also provides water and wastewater services to non-household customers, but following the opening of the non-household retail market on 1 April 2017, TWUL's interaction is now with retailers operating within the market, as opposed to the end customer.

In July 2016, TWUL announced the disposal of its retail non-household business to Castle, effective from market opening on 1 April 2017. Castle delivered retail non-household services, acting as agent for TWUL for the period up to market opening pursuant to a commercial agreement between TWUL and Castle. This agreement, which contains enforceable service level standards based on agreed performance levels, provides for intervention, step-in and termination rights for TWUL in certain circumstances. TWUL's non-household accounts were transferred over to Castle on a phased basis, which enabled an orderly transition of services and customer data. TWUL formally exited the retail non-household market as of 1 April 2017.

### ***Customer service***

Customer Service is a key focus for TWUL. It is closely assessed and monitored by Ofwat and the level of customer service provided by the water industry is measured by SIM. The SIM was calculated over the 3 years of 2011/12 to 2013/14 and TWUL suffered a penalty of approximately £84 million for AMP5 in the 2014 Final Determination (in 2012/13 prices). The final value of the penalty will not be finalised until the end of AMP6, as revenue is linked to RPI each year, and so the actual penalty may be in the region of £95 million. This penalty had an impact on TWUL's 2017/18 financial results and is also levied via a reduction in tariffs in future years, so will continue to have an impact during AMP6. TWUL has continued to measure itself using the SIM methodology, and reported improved performance during 2017/18.

During AMP6, TWUL's SIM reward or penalty is based on comparative industry performance for the four year aggregate period of 2015/16 to 2018/19. It is calculated using a weighted sum of a qualitative score (75 per cent.) and a quantitative score (25 per cent.). SIM is only applicable to household customers, but includes a measure of service delivery across the wholesale and retail businesses. These scores are calculated based on the following:

- Qualitative (Customer survey - Quarterly). 800 surveys in total will be conducted by Ofwat on an annual basis over four separate weeks (one per quarter). 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 21 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 (with a score of “1” being very dissatisfied and a score of “5” being very satisfied).
- 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 for AMP6 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). In financial terms, this is broadly similar to the reward/penalty target for SIM in AMP5.

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

For AMP6, Ofwat is yet to confirm its methodology for calculating the maximum reward and penalty for performance. As at the date of this Prospectus, this methodology has still not been provided.

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

During 2017/18, TWUL’s SIM score increased to 78.4 (out of 100) from 77.3 in 2016/17, however, this was still below the committed performance level of 80.14. The number of written complaints was 16.89 complaints per 10,000 properties. TWUL is committed to improving the customer experience and making it easier for customers to administer their accounts and has launched the first part of its new online account management platform to enable this.

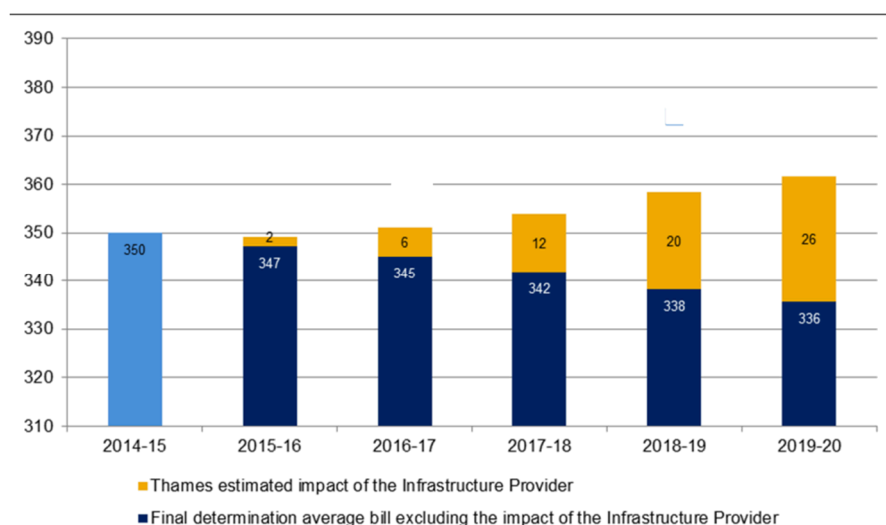
### **Customer charges**

The charges to household customers for water supply and sewerage services are billed by TWUL’s retail business (charges to non-household customers are billed by the wholesale business to non-household retailers, who in turn bill the end customer). The element of the charge allowed for the retail business 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 by annual, semi-annual or monthly instalments. Customers are offered a variety of different payment methods and options including weekly payments, direct debit and pay points. Separate charges are made for water supply and sewerage services, and the average combined water supply and sewerage services bill for both metered and unmetered household customers during the 2017/18 billing period was £374. The average combined bill for 2018/19 is £383 (Source: Water UK).

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

## Estimated average household bill as per the Ofwat Final Determination (£)<sup>2</sup>



Source for the diagram can be found on page 7 of the Final Determination which can be found at [https://www.ofwat.gov.uk/wp-content/uploads/2015/10/det\\_pr20141212tms.pdf](https://www.ofwat.gov.uk/wp-content/uploads/2015/10/det_pr20141212tms.pdf)

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

### Metering customers

Following approval of TWUL's Water Resources Management Plan in 2012, 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. TWUL is now working on finalising its next Water Resources Management Plan for the 80 year period from 2020 to 2100, a draft of which was submitted to Defra in December 2017.

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.

### Bad debt

Under the WIA, regulated water and wastewater companies are prohibited from disconnecting household customers from their water supply for failure to pay bills. TWUL, through the use of a dedicated billing call centre, contacts customers who are in arrears and arranges payment plans wherever possible. On an EU-IFRS basis, TWUL's bad debt charge as a percentage of revenue was 2.8 per cent. for 2017/18, up from 2.4 per cent. for 2016/17.

The level of bad debt provision recognised by TWUL is based on a management judgement of the impact of the level of historic and current cash collections, the effect of cancelling billings on expected debt recovery (for example, where the property occupier has moved without informing TWUL or where TWUL was unable to invoice for a period of time when the property was unoccupied) and the levels of debt due to

<sup>2</sup> References to the "Infrastructure Provider" in the diagram in this section are to "Bazalgette Tunnel Limited".



be collected on TWUL's behalf (for debtors in relation to TWUL's water business only). This judgment at 31 March 2018 for the 2017/18 period was reviewed by both TWUL's Audit, Risk & Reporting Committee and TWUL's external auditors, KPMG LLP. It is included in this Prospectus to allow potential Bondholders to better assess TWUL's performance and business.

Bad debt is therefore a significant cost for TWUL and the largest cost for its retail business. It is an area of major focus for TWUL, which has completed 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 now live, and in April 2016 TWUL became a member of Equifax's credit bureau data share, Insight, which enables TWUL to affect the credit score of its customers. With these changes TWUL is reducing the level of bad debt relative to the size of the bill over AMP6.

## Systems

Customer Experience 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.

## AMP6 Key Committed Performance Levels<sup>3</sup> and Financial ODIs

The following committed performance levels ("CPL") provide a snapshot of performance during 2017/18. Under TWUL's internal assessment measures, each CPL is rated Green, Amber or Red (as defined below):

- Green - performance at, or favourable to, TWUL's committed performance level for 2017/18, or improving trend for T3;
- Amber - performance within the range allowed without a penalty (the 'deadband') if defined or, if not, within 5 per cent. of TWUL's committed performance level, or marginal asset health, or stable trend for T3; and
- Red - performance below the deadband (if defined) or more than 5 per cent. adverse to our committed performance level, or deteriorating asset health, or declining trend for T3.

A summary of the key CPL is given in the following table. Where they have not been met, or where performance improvements are being focused, further detail has been included.

The financial incentives by performance commitment for AMP6 are also set out in the table below, under the column "*ODI impacts in relation to AMP6 (2012/13 prices)*".

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<sup>3</sup> Performance Commitments as agreed for AMP6 (Source: 2017/18 Combined Annual Report and Annual Performance Report)

Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
WA1: Improve handling of written complaints by increasing 1st time resolution - water	91	96	96	Yes			
WA2: Number of written complaints per 10,000 connected properties - water	8.84	9.12	12.39	No	The 36 per cent. increase in this commitment was due to a 67 per cent. rise in complaints about our Customer Side Leakage process and a 51 per cent. risk about low pressure/ See page 31 of the 2017/18 Annual Report and Annual Performance Report.		
WA3: Customer satisfaction surveys (internal CSAT monitor) - water	4.44	4.50	4.42	No	The lower score was driven by reduced performance in Q2 and Q3 of 2017/18 largely caused by increased supply/demand and resource issues on our network during the summer months. See page 32 of the 2017/18 Annual Report and Annual Performance Report.		
WA4: Reduced water consumption from issuing water efficiency devices to customers	-	-	20.22	-			
WA5: Provide a free repair service for customers with a customer side leak outside of the property	1,404	2,089	4,834	Yes			
WB1: Asset health water infrastructure	Marginal	Marginal	Marginal	No	Performance is dependent on a number of sub measures including supply	(4.6750)	(23.3750)

Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
					interruptions of more than 12 hours and low pressure. There was a significant increase in the number of properties affected for 12 hours or more (23,457) compared to 2016/17 (6,051). See page 11 of the 2017/18 Annual Report and Annual Performance Report.		
WB2: Asset health water non-infrastructure	Stable	Stable	Stable	Yes			
WB3: Compliance with drinking water quality standards (MZC) - Ofwat/ DWI KPI	99.96	99.96	99.96	No	Performance of 99.96 per cent. has been maintained throughout AMP6 to date. The target was set at a stretching 100 per cent. for year 3 meaning the target was not met. See page 29 of the 2017/18 Annual Report and Annual Performance Report.		
WB4: Properties experiencing chronic low pressure (DG2)	0	5	206	No	The performance for 2017/18 is due to the way the measure is calculated, rather than a deterioration in asset health. 200 low pressure issues were resolved and removed from the register in April 2018. See page 33 of the 2017/18 Annual Report and Annual Performance Report.		

Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
WB5: Average hours lost supply per property served, due to interruptions > 4 hours	0.12	0.12	0.21	No	The exceptionally high number reported in 2017/18 is mainly a result of the freeze/thaw event in February/March 2018. See page 28 of the 2017/18 Annual Report and Annual Performance Report.	(10.6700)	(4.4200)
WB6: Security of Supply Index - Ofwat KPI	100	99	97	No	Performance is influenced by other measures such as customer demand, customer side leakage and network leakage. The 2017/18 leakage performance has led to the decline in performance from 2016/17. See page 29 of the 2017/18 Annual Report and Annual Performance Report.	(6.7950)	(9.0600)
WB7: Compliance with SEMD advice notes (with or without derogation)	-	-	21	-			
WB8: MI/d of sites made resilient to future extreme rainfall events	-	-	4	-			0.0050
WC1: Greenhouse gas emissions from water operations	275.9*	151.4*	46.2	Yes			
WC2: Leakage	642	677	695	No	Our leakage recovery plan, which was mobilised following the 2016/17 leakage performance, is on track to deliver the year 5 target of 606 MI/d. See	(13.0500)	(48.6000)

Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
					page 28 of the 2017/18 Annual Report and Annual Performance Report.		
WC3: Abstraction Incentive Mechanism (AIM)	-	0	(1,676.29)	Yes			
WC4: We will educate our existing and future customers	17,491	20,898	21,341	Yes			
WC5: Deliver 100 per cent. of agreed measures to meet new environmental regulations	-	-	Not available	-			
WD1: Energy imported less energy exported	496	491	510	No	Performance driven by increased pumping following wet weather in December 2017 coupled with increased demand during the hot summer and freeze/thaw event in February/March 2018. See page 33 of the 2017/18 Annual Report and Annual Performance Report.		
SA1: Improve handling of written complaints by increasing first time resolution - wastewater	87	93	94	No	Performance levels have improved from previous years through improvements made to the way different teams work together. See page 31 of the 2017/18 Annual Report and Annual Performance Report.		
SA2: Number of written complaints per 10,000 connected properties - wastewater	6.46	6.21	4.39	Yes			

Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
SA3: Customer satisfaction surveys (internal CSAT monitor) - wastewater	4.50	4.57	4.55	No	The start of 2017/18 was difficult, but the score increased throughout the year to end on 4.55. Operational and functional responsibility has been given to the customer service team meaning more complaints can be resolved first time. See page 32 of the 2017/18 Annual Report and Annual Performance Report.		
SB1: Asset health wastewater non-infrastructure	Stable	Stable	Stable	Yes			
SB2: Asset health wastewater infrastructure	Stable	Stable	Stable	Yes			
SB3: Properties protected from flooding due to rainfall (including Counters Creek project)	-	-	40	-			
SB4: Number of internal flooding incidents, excluding those due to overloaded sewers (SFOC)	1,410	1,214	1,062	Yes		1.2650	(5.9350)
SB5: Contributing area disconnected from combined sewers by retrofitting sustainable drainage	-	-	0	-			
SB6: Compliance with SEMD advice notes (with or without derogation)	-	-	26	-			

Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
SB7: Population equivalent of sites made resilient to future extreme rainfall events	-	-	537,700	-			
SB8: Lee Tunnel including Shaft G	Scheme delivered	Scheme delivered 2015/16	Scheme delivered 2015/16	N/A			
SB9: Deephams Wastewater Treatment Works	-	Scheme delivered	Scheme delivered 2016/17	N/A			
SC1: Greenhouse gas emissions from wastewater operations	468.5	346.7	231.7	Yes			
SC2: Total category 1-3 pollution incidents from sewage related premises	232	315	292	Yes			
SC3: Sewage treatment works discharge compliance	99.13	98.28	99.43	No	The target for this measure is 100 per cent. Performance has improved due to additional investment to repair equipment at wastewater sites to ensure our existing infrastructure is working to its full potential. See pages 29 and 51 of the 2017/18 Annual Report and Annual Performance Report.		(2.3070)
SC4: Water bodies improved or protected from deterioration as a result of Thames Water's activities	-	-	0	-			
SC5: Satisfactory sludge disposal compliance	100	100	100	Yes			

Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
SC6: We will educate our existing and future customers	17,491	20,898	21,341	Yes			
SC7: Modelled reduction in properties affected by odour	-	1,305	1,980	Yes		0.0460	0.2578
SC8: Deliver 100 per cent. of agreed measures to meet new environmental regulations	-	-	Not available	-			
SC9: Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife	-	-	0	-			
SD1: Energy imported less energy exported	533	477	431	No	Imports from the grid have reduced due to self-generation, however, delays in commissioning of Thermal Hydrolysis plants and higher population growth than anticipated has resulted in the target being missed. See page 34 of the 2017/18 Annual Report and Annual Performance Report.		
T1A: Successful procurement of the Infrastructure Provider (IP)	Complete	Scheme delivered 2015/16	Scheme delivered 2015/16	N/A			
T1B: Thames Water will fulfil its land related commitments in line with the TTT programme requirements	13	Additional 13 sites access granted in year. In line with Tideway requirements	13	Yes			
T1C: Completion of category 2 and 3 construction works and	9	19	21	Yes			



Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
timely availability of sites to the IP							
T2: Thames Water will engage effectively with the IP, and other stakeholders, both in terms of integration and assurance	-	Effective engagement	Effective engagement	Yes			
T3: Thames Water will engage with its customers to build understanding of the TTT project. Thames Water will liaise with the IP on its surveys of local communities impacted by construction*	Yes	No	No	No	Performance in 2017/18 has improved from 2016/17, however, there is a decreasing trend from the start of the AMP. See page 35 of the 2017/18 Annual Report and Annual Performance Report.		
RA1: Minimise the number of written complaints received from customers (relating to charging and billing)	14	19	17	Yes			
RA2: Improve handling of written complaints by increasing first time resolution - charging and billing	92	94	95	Yes			
RA3: Improve customer satisfaction of retail customers - charging and billing service	4.61	4.63	4.66	Yes			
RA4: Improve customer satisfaction of retail customers - operations contact centre	4.27	4.46	4.43	No	Telephony and system issues, coupled with events across multiple postcodes led to major spikes in calls and wait times. See page 32 of the 2017/18 Annual Report and Annual Performance Report.		

Performance commitment	2015/16 performance level - actual	2016/17 performance level - actual	2017/18 performance level - actual	2017/18 CPL met?	Details where 2017/18 CPL has not been met / performance improvements being focused	2017/18 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
RA5: Increase the number of bills based on actual meter reads (in cycle)	91	97	96	Yes			
RA6: Service incentive mechanism (SIM)	76.7	77.3	78.4	-			
RB1: Implement new online account management for customers supported by web-chat	Limited online	Limited online	New online self serve channel	Yes			
RC1: Increase the number of customers on payment plans (excluding Thames Tideway Tunnel)	54	55	58	Yes			
RC2: Increase cash collection rates (excluding Thames Tideway Tunnel)	88.2	87.9	89.2	No	Performance has improved since 2016/17, however, following the sale of our non-household retail business, the performance level represents household customers against a combined target. This will be the case for the rest of the AMP. See page 33 of the 2017/18 Annual Report and Annual Performance Report.		

## **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 through combined sewer overflows (“CSOs”) built into London’s sewerage system. These discharges occur 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.

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; 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 completed the Sewage Treatment Upgrades and the Lee Tunnel entered into commission in January 2016. Following these improvements, 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>1</sup>

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

The Thames Tideway Tunnel, or TTT Project, is the construction of a tunnel which will broadly follow the path of the River Thames in order to intercept the most polluting CSOs as identified by the Environment Agency. The TTT Project presents a considerable engineering and construction challenge due to its length, depth and route under the city of London.

## **Overview of the TTT Project delivery model**

Given the size and scale of the TTT Project and its importance to UK infrastructure, TWUL developed, together with Defra, Ofwat and Infrastructure UK within Her Majesty’s Treasury, a delivery model for the TTT Project under which it is delivered by an independent infrastructure provider designated pursuant to the SIP Regulations (as described further below).

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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.

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 used 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 infrastructure provider which is 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 “*Residual Risks arising from the Thames Tideway Tunnel*”).

Once the Secretary of State specified the TTT Project as a ‘specified infrastructure project’ on 4 June 2014, TWUL was precluded from carrying out the TTT Project other than in respect of certain preparatory works, as described below.

Following a public procurement process run by TWUL in 2015, an IP Designation Notice was issued by Ofwat on 13 August 2015, designating Bazalgette Tunnel Limited (“**BTL**”) as the infrastructure provider.

TWUL’s Instrument of Appointment has been amended such that it has the ability and obligation to collect additional revenues from customers (as part of its normal billing cycle) which it passes to BTL. TWUL is only required under the Revenue Agreement (as further described below) to pass such revenues to BTL on a “pay when paid” basis i.e. TWUL is only required to pass to BTL 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.

BTL is contractually obliged to ensure that the Thames Tideway Tunnel connects correctly to, and integrates with, TWUL’s existing sewer network.

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

### ***SIP Regulations***

The SIP Regulations, which form the legislative basis for the TTT Project, were made on 27 June 2013 under Part 2A of the WIA 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’. The Secretary of State specified the TTT Project on 4 June 2014.

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

The SIP Regulations prohibit 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 effect being that the TTT Project is effectively ring-fenced from the risks associated with the design, construction and financing of the TTT Project in BTL). 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.

### ***TWUL’s obligations***

TWUL is the licensed water and sewerage undertaker for the London region pursuant to the WIA.

As set out above, as the incumbent undertaker TWUL is prohibited by 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 activities include:

- (a) procuring land and land rights necessary to implement the TTT Project;
- (b) procuring and financing enabling works (“**Enabling Works**”). These are enabling works which do not require the DCO to be granted. These works are funded by TWUL under its 2014 Final Determination and 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 Lee Raw Water Tunnel (for TWUL in its capacity as statutory undertaker) and are being delivered via contracts let by TWUL;
- (c) procuring and financing interface works (“**Interface Works**”). These 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. 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. Interface works with existing sewerage systems can be complex especially at pumping station sites. The Interface Works are and will be overseen by the TWUL major projects team;
- (d) collecting revenue from customers and paying the IP Charges to Bazalgette in accordance with the terms of the Revenue Agreement (as described in more detail in the section “*IP Charges: collection and payment*” below);
- (e) reporting to the Liaison Committee as required under the terms of the Liaison Agreement;
- (f) 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 section 94 of the WIA;
- (g) 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
- (h) 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.

### ***Price Controls***

On 6 July 2018, Ofwat published a consultation on its plans to modify Condition B of TWUL’s licence in order to allow Ofwat to set a separate price control for the period 2020-2025 for TTT activities. A continuing separate control will allow Ofwat to provide a tailored uncertainty mechanism and materiality threshold that would not otherwise be possible. This will provide TWUL an appropriate level of risk for the project during its construction phase, and customers will therefore pay an appropriate amount for TWUL’s investment. Extending the separate price control for a further five years will also enable the disposals of land, purchased by TWUL to facilitate the project, to be dealt with in a separate price control.

### ***Role of Bazalgette Tunnel Limited***

BTL is 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 retains operation and maintenance responsibility).

BTL is a special purpose vehicle set up for the purposes of delivering the TTT Project, and the TTT Project is its regulated business. BTL is a wholly separate legal entity, and TWUL has no direct or indirect corporate

control over BTL's activities, although there are contractual interfaces between BTL and TWUL. BTL has no recourse to TWUL other than in accordance with the contractual relationship between the two.

BTL is directly regulated by Ofwat pursuant to the SIP Regulations and the WIA and the terms of the IP Project Licence.

BTL's relationship with TWUL is governed by both its licence (which was amended to enable the TTT Project) and contractual arrangements, described in further detail below.

### ***IP Charges: collection and payment***

Under the provisions of the SIP Regulations, BTL 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 certain specified types of customers, including any undertaker which has an agreement with BTL for the supply of sewerage services or works or any undertaker which has the use of any infrastructure which BTL owns or operates. This would include TWUL.

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 BTL will charge by agreement and will do so by entering into the Revenue Agreement with TWUL pursuant to which:

- (a) BTL charges TWUL for the services it provides;
- (b) TWUL recovers those charges from wastewater customers (whether directly or through its arrangements with the WOCs); and
- (c) TWUL's liability will be to pay a proportion of the revenue collected from customers or the WOCs to BTL on a monthly basis. 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.

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 BTL 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 BTL to TWUL under the asset protection agreement between BTL and TWUL. The Revenue Agreement sets out in detail the processes for calculation of BTL revenue payment, invoicing and payment. At the end of each month, TWUL prepares a draft monthly payment statement which sets out BTL revenue payment and meets with BTL to finalise that statement. BTL 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.

TWUL's Licence includes pass-through provisions which allow TWUL to recover the IP Charges from customers. TWUL is 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 its Licence. TWUL's Licence also excludes 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.

### ***The TWUL / BTL relationship***

TWUL's relationship with BTL is governed by the Interface Agreement during the works phase of the TTT project and the Operation and Maintenance Agreement from System Acceptance Date. TWUL and BTL also

entered into an Alliance Agreement, that governs the way in which the relevant project parties do and will continue to work together and incentivise behaviours to promote the overall success (specifically cost and schedule) of the TTT Project, and an asset protection agreement under which each of TWUL and BTL indemnify the other for certain losses.

#### *The Interface Agreement*

Under the Interface Agreement TWUL grants BTL a construction licence over certain TWUL-owned land to enable BTL to conduct the IP Works. The Interface Agreement also 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; (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. BTL 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, BTL 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 these are capable of being satisfied.

Each of TWUL and BTL is responsible for commissioning the works it has constructed. Following successful commissioning of the TTT Project infrastructure, BTL 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 BTL, BTL may apply for a System Acceptance certificate.

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

The Interface Agreement contains indemnities granted by each of TWUL and BTL in favour of the other, commensurate with the risk profile. These 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. 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 BTL or TWUL or the performance or non-performance of BTL or TWUL’s obligations under the Interface Agreement are also provided. All such indemnities are backed by the insurances set out below subject to deductibles, limits and exclusions.

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

Pursuant to the O&M Agreement, BTL 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 BTL will be the inspection of the TTT Project (anticipated to be on a 10-year cycle).

TWUL will assume responsibility for operating and maintaining all TTT Project assets other than those operated and maintained by BTL (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. BTL will support TWUL in complying with the Environmental Permits and Operating Techniques.

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

The O&M Agreement contains indemnities granted by each of TWUL and BTL in favour of the other on substantially similar terms as those described above with respect to the Interface Agreement.

#### *The Alliance Agreement*

The Alliance Agreement was entered into by TWUL, BTL and each of the contractors for the eastern main works section, the central main works section, the western main works section and SCADA and sets out the basis on which the parties co-ordinate work schedules to perform, and manage the interfaces between, their respective activities in accordance with the TTT Project master programme.

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 (i) achieving specified key project milestones throughout the construction, commissioning and operating period; and (ii) 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 Alliance Agreement was amended on 13 June 2016. Under the terms of the amendment, the level of downside exposure to TWUL under the agreement was reduced in return for an incentive payment for meeting an accelerated construction programme (known as the Strategic Target Schedule ('STS')). Moreover, TWUL's maximum gain is capped at £24.65 million and its maximum downside (which may only be funded by set-off against any upside) is capped at £5.25 million.

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 BTL. 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 BTL 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.

#### *TWUL/BTL asset protection agreement*

TWUL is also the beneficiary of an asset protection agreement from BTL, in which BTL agrees to indemnify TWUL for damage to its existing assets caused by BTL 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 BTL, such that BTL's indemnity obligations apply only insofar as the loss is recoverable under BTL's insurances or pursuant to the Government support package.

#### *Cremorne Wharf Agreement*

At the time of the Variation process, the Counters Creek flood alleviation scheme in West London was still under development and subject to planning. TWUL's review of the scheme was still ongoing and no conclusions as regards the future strategic sewer had been reached at that point. TWUL's preferred solution would involve works to be carried out at the TTT Cremorne Wharf Depot site adjacent to BTL's works, and would involve a direct connection into the TTT system. In order to allow for this, TWUL agreed an additional TTT Project document (the "**Cremorne Wharf Agreement**") which provides for TWUL to fund changes to the TTT works required to facilitate the integration of the two projects, puts the works on a similar contractual footing to TWUL's other TTT-related works, addresses design coordination and access arrangements, and puts reciprocal asset protection arrangements in place.

TWUL's view at that time was that a decision needed to be made so as not to delay the TTT programme and that the risk that the site could be lost as a result of the lack of space on the site meant that it was better to agree to the Variation to "future proof" the site.

While TWUL no longer needs to develop the strategic sewer, they are committed to fulfilling the requirements of the Cremorne Wharf Agreement. TWUL's current view is that customers will remain protected by the current proposals for at least 15-20 years. However, uncertainties in climate change predictions, or the uptake of SuDS and source separation in the area, driven by the Boroughs' planning policies, may mean that a further intervention in the area is required. Whilst TWUL does not expect this to be the same solution as proposed in PR14, i.e. additional combined sewer capacity, TWUL's view is that any major intervention, such as surface water separation, will require drainage and disposal to the river or TTT and that the Cremorne Wharf site would therefore likely feature in any future scheme.

#### *TWUL's relationship with the Secretary of State*

In addition to the contracts which TWUL entered into with BTL set out above, TWUL and BTL also entered into a liaison agreement with the Secretary of State.

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 BTL 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 BTL'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, BTL and the Secretary of State in circumstances in which the TTT Project is discontinued or the Project Specification Notice is revoked.

#### *Overview of land arrangements*

Both TWUL and BTL require interests in certain land in order to carry out their functions with respect to the TTT Project. All land associated with the TTT Project will be protected land within Condition K of TWUL's Licence or the IP Project Licence. This means that the land cannot be disposed of except with regulatory and statutory consents.

Land acquisition and disposal costs go to TWUL's RCV and are recovered from TWUL's customers on a "no pain/no gain" basis as provided for in TWUL's Licence.

Prior to the IP Project Licence award, TWUL acquired most 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 BTL 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 BTL 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 BTL 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 BTL 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, BTL 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.

To secure land for the operational phase pursuant to the compulsory purchase powers, it must be demonstrated that the land or land interest is required for the future operation of the TTT Project. In respect of the operational land, TWUL granted an Agreement for Lease at the IP Project Licence award, which provides for the requirement to grant a long-term lease to BTL 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 entered into is for a long period (999 years) and includes 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 BTL 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 BTL).

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

BTL granted 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.

### ***Third party liabilities***

#### ***Asset protection agreements***

TWUL entered into two asset protection agreements ("APAs") 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.

Following IP Licence Award, TWUL now has only residual liability in respect of such APAs insofar as it relates 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 BTL and are recoverable through the regulatory regime. TWUL included an estimate of the possible costs in its PR14 application. All properly incurred expenditure is expected to be reflected in either TWUL or BTL's RCV.

#### *Insurance*

BTL and TWUL both obtained (or will obtain) their own insurance during the construction and operations phase of the TTT Project from commercial insurance providers. TWUL insures the early works, site preparation and the upgrades required to its existing sites. These insurances for BTL and TWUL are listed in schedules to the Interface Agreement and O&M Agreement.

TWUL is 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 BTL is required to procure become commercially unavailable (except to the extent due to certain conduct or claims record). In the event of damage to TWUL assets caused by BTL, TWUL may claim under the asset protection agreement between TWUL and BTL, and BTL 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 BTL failure**

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

- (i) special administration of BTL;
- (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 BTL and impact on TWUL***

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

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

- (i) resolution exit where BTL exits as a going concern;
- (ii) a transfer exit where the ownership of BTL is transferred to new equity providers by way of a share sale or a transfer of BTL assets to a new entity which would then be designated as BTL 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 BTL<sup>2</sup>; or
- (iv) the Secretary of State or Ofwat applies for a discharge of the special administration order.

If BTL 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 BTL 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 BTL 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 BTL are transferred to a new IP entity, it is assumed that all of the obligations of BTL 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 BTL 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 BTL;
- (ii) choose to discontinue the Government support package; or
- (iii) make an offer to the stakeholders of BTL to purchase the shares of BTL.

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

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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.

- (i) the Secretary of State could continue the TTT Project, acting as BTL 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
  - (c) de-designate BTL (a “**De-designation**”).

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

The Secretary of State and Ofwat has 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 BTL;
- (iii) BTL 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) BTL 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) the Secretary of State fails to elect to either issue a Discontinuation Notice or provide contingent equity in accordance with the Contingent Equity Support Agreement;
- (ii) the Secretary of State 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) the Secretary of State fails to make an election to either make an offer for the shares of BTL 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 is 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 BTL. The Secretary of State 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 the Secretary of State:

- (i) has consulted Ofwat and TWUL and such other person he considers appropriate;
- (ii) has taken into account the existence of a project licence in respect of the TTT Project; and
- (iii) 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 obligation 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.

## **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**

TWUL operates three pension schemes, one of which is a defined contribution scheme and the other two are defined benefit schemes (the Thames Water Pension Scheme ("**TWPS**") and the Thames Water Mirror Image Pension Scheme ("**TWMIPS**").

The defined contribution scheme was established in April 2011 and is open to all new employees of TWUL. The defined benefit schemes were closed to new entrants on that same date, the TWMIPS having been closed to new entrants following water privatisation in 1989.

Members of both defined benefit schemes now accrue benefits on the basis of their career average earnings. The TWPS ceased to be a final salary scheme in 2011, as did the TWMIPS in 2014.

The assets of these schemes are held separately from the rest of the Company in funds in the United Kingdom which are independently administered by the Pension Trustees. Under International Accounting Standard 19R (Employment Benefits) ("**IAS 19R**") the deficit calculated at 31 March 2018 for the Company's defined benefit pension schemes totalled £300.8 million. This deficit arises solely in TWPS.

There is a recovery plan in place, as agreed between the TWUL Directors and the scheme trustees, to restore TWPS to a fully funded position. Pursuant to the March 2016 actuarial valuation, as agreed in June 2017 TWUL has committed to making additional contributions to the scheme annually. The additional amounts, calculated by a qualified and independent actuary working on behalf of the scheme trustees, are intended to restore the funding level of the scheme by 2027.

For further information regarding TWUL's pension commitments, see the audited financial statements of TWUL for the year ended 31 March 2018 and the section of this Chapter entitled "*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.

In May 2016, the High Court held that TWUL is not obliged to pay the CRT the market value of the water which TWUL abstracts from the River Lee (potentially as much as £30,000,000 per annum). In addition, the High Court decided that the CRT has no other legal claim for damages and that the annual payments should continue on the same basis as before. However, the High Court judgment was not clear on what basis the payments had been made previously and how the quantum of the payments should be calculated. As a result of the judgment, both parties appealed to the Court of Appeal and those appeals were heard in late January 2018. The Court of Appeal judgment clarified that the market value of water is relevant to that part of the payments relating to the supply of the water but that market value is not the only material consideration in the setting of the level of the payments. The matter will now pass to the Secretary of State for final determination. The form and timing of related submissions is being finalised.

### **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 the 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 was 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.

In May 2018, Ofwat released its consultation titled “Change of control – general policy and its application to Thames Water” (the “**Change of Control Consultation**”). The Change of Control Consultation relates to Ofwat’s approach to a change of control of a water and wastewater company and proposes a number of licence changes in respect of the Issuer. The Change of Control Consultation is not legally binding and Ofwat is currently reviewing the views and opinions of stakeholders on the proposals.

***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.

## **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 Kemble 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 Kemble 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 for 2017/18 were KPMG LLP ("**KPMG**"), which is a member firm of the Institute of Chartered Accountants in England and Wales. KPMG were originally appointed after a competitive tender process for the 31 March 2009 audit. The Company has previously stated that it will operate a ten-year audit tender process, in alignment with the EU regulatory framework for statutory audit, therefore the tender was undertaken to determine which firm would be appointed as auditor for the year ending 31 March 2019. Following a competitive tender process, the ARRC recommended to the Board that PricewaterhouseCoopers LLP ("**PwC**") succeed KPMG as auditor following completion of the audit for 31 March 2018.

#### ***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. As at the date of this Prospectus, the ultimate beneficial owners of TWUL are the Kemble Shareholders. The composition of the TWUL Board at the date of this Prospectus consists of a Chairman, three Executive Directors, up to five Kemble Shareholders 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.

Sir Peter Mason KBE resigned as Chairman on 25 January 2018. In addition, Mark Braithwaite resigned as Non-Executive Director on 31 May 2017, Dipesh Shah resigned as a Non-Executive Director on 2 August 2017 and Nick Horler resigned as Non-Executive Director on 2 December 2017.

Ian Marchant was appointed as an Independent Non-Executive Director on 1 December 2017 and became Chairman of TWUL on 26 January 2018. Kenton Bradbury joined the TWUL Board as a Non-Executive Director with effect from 31 May 2017. Greg Pestrak joined the TWUL Board as a Non-Executive Director with effect from 3 October 2017, Alistair Buchanan joined the TWUL Board as an Independent Non-Executive Director with effect from 9 July 2018 and Jill Shedden joined the TWUL Board as an Independent Non-Executive Director with effect from 1 October 2018.

TWUL's primary corporate objectives 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. 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***

For 2017/18 onwards, TWUL has reviewed all incentive structures in order to focus the leaders in the business on delivering long-term sustainable improvements for customers and stakeholders. There will be a continued emphasis on the link between total remuneration and key customer, asset performance, environmental and financial measures.

Incentives will continue to be delivered in a mixture of short-term annual bonuses and long-term incentive plans covering three year performance periods. In addition to incentive structures, TWUL has reviewed the quantum of incentives payable to senior executives to ensure such incentives are appropriately benchmarked with those offered by comparable businesses and to ensure that such amounts are only payable on delivery of improvements in performance. Part of this review included the introduction of the CEO incentive, which replaces the CEO's entitlement to any payment under the Annual Managers' Bonus and any other longer term incentive for the period from April 2017 to March 2020, with the potential for a single payment which would typically be paid in July 2020. Under the CEO Incentive, the CEO's on-target and maximum payments have been reviewed and agreed with the Board as follows:

- delivery of the 'targets', which are considered to be stretching as previously described, will result in a payment of up to £3.75 million;
- delivery of outstanding performance above the target could result in an additional payment, the amount of which is at complete discretion of the Board. Any payment would be capped at two times on target earnings and be fully funded by investors.

## **Directors of TWUL**

### ***Chairman***

Ian Marchant was appointed as an Independent Non-Executive Director on 1 December 2017, and became Chairman of TWUL on 26 January 2018 following Sir Peter Mason's retirement. Ian spent 21 years at SSE Plc, most recently as Chief Executive and prior to that as Finance Director, before his retirement in June

2013. Ian was an Independent Chairman of Maggie's Cancer Charity and, is currently Independent Chairman of John Wood Group plc, Chair of Nova Innovation Ltd and a Non-Executive Director of Aggreko plc. Through his company Dunelm Energy Limited, he advises and invests in start-up businesses. He is a visiting professor at Edinburgh and Durham University Business Schools and chairs the Strathclyde University CEP advisory Board. Ian is also the founder of the Scotland lights up Malawi Campaign for Climate Justice and was recently appointed Honorary President of the Royal Zoological Society of Scotland. Ian is the former Chairman, and founder of Scotland 2020 Climate Group, and served as the President of the Energy Institute and Chairman of the renewable energy firm, Infinis.

## **Executive Directors**

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

Steve Robertson became CEO of TWUL in September 2016, having previously held the position of Chief Executive Officer at Truphone, where he developed ground-breaking technology allowing it to become a disruptive player in the global market.

Prior to joining Truphone, Steve served as CEO of BT Openreach from its inception in 2005 until 2010. He has gained extensive experience in the telecoms industry with a wide variety of roles in the BT Group and at COLT Telecommunications, including having responsibility for the overall performance and operation of the whole of BT's UK mainland telecommunications network, as Managing Director of Wholesale Operations.

### ***Chief Financial Officer***

Brandon Rennet joined TWUL in March 2017 as CFO, having previously worked for energy company SSE since February 2007, where he held a number of senior finance roles before being appointed Managing Director of Finance in July 2013. Brandon's focus at SSE included leading the execution of more than £7 billion of funding, primarily in the public debt capital markets, driving significant acquisitions and disposals, and initiating its finance transformation programme. As a chartered accountant, his earlier career included finance roles in Edinburgh, London, Philadelphia, and Toronto for companies including PwC, HSBC, and British Energy, as well as a secondment to the Prime Ministers Delivery Unit (part of the Cabinet Office).

### ***Director of Strategy and Regulation***

Nick Fincham was appointed to TWUL's Board in April 2016. Since April 2011 Nick has been a member of our Executive Team as Director of Strategy and Regulation. Before joining Thames Water, Nick spent six years as Director of Economic Regulation and Competition Policy at the Civil Aviation Authority. Prior to that, he held senior positions at a number of economic regulators including OFFER, Ofgas, Ofgem and Postcomm.

### ***Appointed Non-Executive Directors***

Kenton Bradbury was appointed a Non-Executive Director of Thames Water Utilities Limited in May 2017. He is currently Managing Director, Asset Management at OMERS Investments, with a focus on Europe. His asset management experience includes: Caruna, Ellevio, NET4GAS, Scotia Gas Networks, and Tank & Rast. Kenton previously served as a Non-Executive Director of Yorkshire Water and Affinity Water and was a Director at Infracapital (the infrastructure investment arm of M&G Investments), where he sat on the boards of various portfolio companies. Prior to Infracapital, he was SVP Infrastructure and Regulation at e.on, based in Germany. He began his career as a consultant working in the utilities and space sectors, and has held various senior operational and strategic roles in infrastructure businesses. Kenton is a Chartered Engineer and currently sits on the boards of London City Airport, Caruna in Finland and Net4Gas in the Czech Republic amongst others.

Christopher Deacon became a NonExecutive Director of Thames Water Utilities Limited in December 2006. He is an independent infrastructure and project finance consultant, adviser to Ofgem, and a Non-Executive Director of various companies in the infrastructure and PPP market place. His career in banking and structured/infrastructure finance has spanned over 20 years, acting as adviser and banker in major infrastructure and project financings around the world. He has acted as a consultant on large infrastructure projects in both the public and private sectors, with assignments including Eurotunnel, Channel Tunnel Rail Link, Tube PPP, and other transport infrastructure projects. Christopher is a director of the trading company of London Business School and a past School Governor. He is Treasurer/ Trustee of the Franco British Council UK Section.

Guy Lambert became a Non-Executive Director of Thames Water Utilities Limited in October 2014. He 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. He 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.

Greg Pestrak was appointed as a Non-Executive Director of the Company in November 2017. Greg is an Executive Vice President at Wren House Infrastructure, where his focus is on Asset Management across the portfolio, which in addition to Thames Water includes other regulated and non-regulated global assets. Prior to joining Wren House, Greg was a Partner in KPMG's Global Strategy Group based in the UK, where he was the Infrastructure lead since 2009. Greg has over 17 years consulting experience, working with Investors and Corporates to drive performance improvement in response to transactions, changes in the market, customer or regulatory environment or financial pressure, bringing an independent and constructively challenging perspective to business and operating models. Greg's experience includes working across multiple sectors over his career, and most recently, he has led performance improvement programmes in the UK and Globally in the Water, Power Generation, Transmission, and Distribution, Telecoms, Transport, and Infrastructure Services sectors. Prior to his career in consulting, Greg worked in Finance with Rothschild Asset Management and Jardine Fleming Asset Management in Hong Kong and the UK. Greg holds a Sloan Fellowship Masters in Management from the London Business School and B.A. from The University of King's College, Canada.

#### ***Independent Non-Executive Directors***

Nick Land became an Independent Non-Executive Director of Thames Water Utilities Limited in February 2017 and appointed Senior Independent Director in July 2017. A chartered accountant, Nick retired as Chairman of Ernst & Young LLP in 2006 after a career spanning 36 years with the firm. He became an audit partner in 1978 and held a number of management appointments before becoming Managing Partner in 1992. He was elected Chairman in 1995 and joined the Global Executive Board at that time. He was also Chairman of Ernst & Young's Northern Europe, India, Middle East and Africa Region. Nick is a Non-Executive Director of the Financial Reporting Council and stepped down as NonExecutive Director of Vodafone Group plc in July 2017, Ashmore Group plc in October 2016, BBA Aviation plc in May 2016, Alliance Boots GmbH in 2015 and Royal Dutch Shell plc in 2010. He is an adviser to the board of Dentons UKEMEA LLP and chairs the Private Equity Reporting Group of the British Venture Capital Association. He is also Chairman of the board of trustees of the Vodafone Group Foundation.

Lorraine Baldry was appointed as an Independent Non-Executive Director of Thames Water Utilities Limited in September 2014. Lorraine has over 40 years' experience in a wide range of industries, including technology, broadcasting, distribution, real estate, and financial services. She is Chair of London & Continental Railways, Schroder Real Estate Investment Trust Limited and Inventa Partners Limited 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, and a former Board Member of the Olympic Delivery Authority where she chaired the Planning Committee. 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 DBE was appointed as an Independent Non-Executive Director of Thames Water Utilities Limited in July 2010 and is the Chair of the Company's Customer Service Committee. She is Chair of the Civil Aviation Authority, Pro-Chancellor of Cranfield University and was a NonExecutive Director of Castle Trust until March 2016. Dame Deirdre was a non-executive member of HM Treasury Board, and was previously Chair of both the National Consumer Council and Food Standards Agency and Deputy Chair of the Financial Services Authority. Dame Deirdre has held a number of positions on a variety of bodies dealing with food issues. She is currently Vice President of the Trading Standards Institute.

Ian Pearson was appointed as an Independent Non-Executive Director of Thames Water Utilities Limited in September 2014. He is Chairman of Code Investing Ltd and for five years and he was Chairman of Octopus VCT2 plc. Ian is an advisor to BAI Communications and was a member of PwC's UK Advisory Board for five years. Amongst other advisory roles, Ian held various roles in government between 1994 and 2010 when he stood down as an MP before the general election. He was Economic Secretary to the Treasury between 2008 and 2010, and prior to that he had 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 CBE was appointed as an Independent Non-Executive Director of Thames Water Utilities Limited in July 2010. Ed began his career as a researcher with Diverse Production Limited where he worked on programmes for Channel 4. He was a senior policy advisor to the Prime Minister for media, telecoms, the internet, and e-Government and Controller of Corporate Strategy at the BBC. He has worked in consulting at London Economics Limited, as an advisor to Gordon Brown MP and led the independent review of financial services trade associations. He was previously a Vice Chairman of the Body of European Regulators for Electronic Communications (BEREC) and was Chief Executive of Ofcom until December 2014, having previously been the Chief Operating Officer. He is currently a Managing Partner at Flint Global, a business advisory firm, a non-executive director of SETL Developments Limited and Donmar Warehouse, and a Governor of the London School of Economics. Ed was awarded a CBE for services to the communications industry in the Queen's birthday honours list in 2015.

Alistair Buchanan was appointed as an Independent Non-Executive Director of Thames Water Utilities Limited in July 2018. Prior to joining Thames Water, Alistair was Chief Executive Officer of Ofgem (UK's gas and electricity markets regulator) from 2003 to 2013, during which time he also sat on the Boards of Durham University and Scottish Water.

In 2013 Alistair re-joined KPMG, where he had qualified as a chartered accountant, as Chairman and Partner of the UK Utilities Practice until his retirement in 2018. Before joining Ofgem, he spent the majority of his career in financial services with investment banks where he was the top ranked analyst in his sector.

Alistair was awarded a CBE in 2008 for services to energy policy making. Alistair also currently sits on the Board of the Royal Holloway University.

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 of TWUL is David Hughes.



## ***Subsidiaries***

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

## ***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***

TWUF was incorporated in England and Wales on 12 July 1989 as a limited company under the Companies Act 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 and re-registered as a public limited liability company on 31 August 2018.

TWUF is a wholly-owned subsidiary of TWUL. Its authorised share capital is £50,001 divided into 50,001 ordinary shares of £1 each. The shares have all been issued. 12,501 shares are fully paid up and 37,500 are partly paid up. 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 the Issuer***

The Auditors of TWUF for 2017/18 were KPMG LLP, which is a member firm of the Institute of Chartered Accountants in England and Wales. PwC will become the company’s auditor for the year ending 31 March 2019.

### ***Directors of the Issuer***

The directors of TWUF are Tom Bolton, Mark Bamford and Stephen Wheeler.

Tom Bolton and Mark Bamford were appointed as directors on 27 September 2017 and 25 July 2018 respectively.

Tom Bolton is the Head of Corporate Finance and joined Thames Water in August 2017, having previously worked at BNP Paribas.

Mark Bamford is the Group Financial Controller and joined Thames Water in October 2017, having previously worked at Arqiva Limited.

Stephen Wheeler is Group Treasurer and joined Thames Water in October 2016. Prior to joining Thames Water, he served as Head of Funding, Investment & Corporate Finance at BG Group plc.

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.

#### ***Company Secretary of the Issuer***

The Company Secretary of TWUF is David Hughes.

#### ***Activities of the Issuer***

TWUF has not engaged in any activities other than those incidental to its formation and the authorisation of the issue of the Secured TWUF Bonds, the Unsecured TWUF Bonds and the issue of the Bonds and the substitution, in place of TWUCFL, as the issuer, borrower, hedge counterparty and principal debtor (as the case may be) of the Bonds and any other Finance Document (including any Authorised Credit Facility and any Hedging Agreement) to which TWUCFL was a party.

The proceeds of an issue of Secured TWUF Bonds or Bonds or a borrowing in respect of any other Authorised Credit Facility to which the Issuer is a party will be (and has been) on-lent by the Issuer to TWUL pursuant to TWUF/TWUL Loan Agreements or Issuer/TWUL Loan Agreements.

TWUF has no subsidiaries.

TWUF may enter into (and has entered into) Hedging Agreements in accordance with the Hedging Policy and has entered into (and will from time to time review) the DSR Liquidity Facilities. TWUF may issue further Bonds or enter into further Authorised Credit Facilities.

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 under the Companies Act 2006 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 for 2017/18 were KPMG LLP, which is a member firm of the Institute of Chartered Accountants in England and Wales. PwC will become the company’s auditor for the year ending 31 March 2019.

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

The directors of TWH are Kenton Edward Bradbury, Jerry James Divoky, Alastair Colin Hall, Guy Lambert, Greg Pestrak, Steven Deeley, Giles John Julian Tucker, Perry Denis Noble, Yan Wang.

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

### ***Company Secretary of TWH***

The Company Secretary TWH is David Hughes.

### ***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 £1,974,744,720 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*”.

## **CHAPTER 6**

### **REGULATION OF THE WATER AND WASTEWATER INDUSTRY IN ENGLAND AND WALES**

#### **Water and Wastewater Regulation Generally**

##### ***Background***

The structure of the water and sewerage industry in England and Wales dates from 1989, when the Water Act 1989 was enacted. As at July 2018, Ofwat recognised eleven, typically large regional companies providing water and sewerage services, six regional companies providing water services only (following some recent consolidation), nine local companies providing water or sewerage or both, 34 water supply and/or sewerage licensees offering regulated retail services to non-household customers and one infrastructure provider). The provisions of the Water Act 1989 are now contained mainly in the consolidating Water Industry Act 1991 (the ‘WIA’) which itself has been substantially amended by the Water Industry Act 1999, the Water Act 2003, the Flood and Water Management Act 2010, the Water Act 2014 and to a lesser extent various other statutory provisions. References in this section to statutes are to the WIA, as amended, unless otherwise stated. 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. Under the Water Act 2014, the non-household retail market opened to competition in April 2017. This new market structure provides a choice for owners of any (not just large) non-household premises to choose their provider as far as a retail service (for both water supply and sewerage) is concerned. These providers, or “water supply licensees”, comprise not only the original 12 licensees that served large-use customers before April 2017, but also new entrants.

##### ***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 instruments of appointment (also referred to as licences). 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 services 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 Environment Agency (‘EA’) (the EA is an executive non-departmental public body, sponsored by the Department for Environment, Food and Rural Affairs). 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 and licensee inputting water into an undertaker’s network; 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 management and regulation of water abstraction from, and discharges to controlled waters (which include rivers, coastal waters, territorial waters extending three miles from shore, inland freshwaters and groundwater).

The WIA, as amended by the Water Act 2003, introduced the independent consumer council for water (known as “CCWater”), whose role is to provide information of use to consumers and to promote the interests of all water consumers.

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, which is 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) secure that the activities authorised by the licence of a water supply licensee or sewerage licensee and any statutory functions imposed on it in consequence of the licence are properly carried out; and
- (e) further the resilience objective, which is to secure the long-term resilience of water supply and sewerage systems and that Regulated Companies 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 Consumer Council for Water; 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 water operations 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" appointment (or "NAV") over part of a Regulated Company's existing appointed area to another Regulated Company (see "Competition in the Water Industry" below).

Before making a NAV replacing a Regulated Company, Ofwat or the Secretary of State must consider any representations or objections made by the existing Regulated Company and other consultees. 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 or primary legislation, Ofwat can secure a modification through a modification reference to the CMA. To date, Ofwat has never used its power to refer a licence amendment to the CMA. 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.

It is possible for primary legislation to confer on Ofwat the power to modify the licences of a Regulated Company (without the consent of the Regulated Company) albeit that this is usually a time-limited power and any licence modification must usually be made in accordance with, and as a direct consequence of, a provision of such primary legislation. To date, changes permitted pursuant to primary legislation have only occurred in relation to Conditions R and S.

Under section 13 of the WIA, Ofwat is able to modify the conditions of a company's licence if the company agrees to the modification proposed by Ofwat. 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.

#### *Recent modifications to and proposals to modify the instrument of appointment*

Under section 13 of the WIA, Ofwat is able to modify the conditions of a company's licence if the company agrees to the modification proposed by Ofwat.

In the Water Act 2014, section 55 allows Ofwat to modify the conditions of Regulated Companies and licensees within two years of the coming into force of the relevant provision of the Water Act 2014, where such modifications are considered necessary or expedient as a consequence of amendments made by the Water Act 2014.

In May 2018 in a consultation titled "Change of control – general policy and its application to Thames Water", Ofwat identified some areas of the financial ring fencing framework which can be strengthened. Ofwat intends to follow this up with a consultation on a more specific set of licence modifications to provisions currently found in Conditions F, K and P.

In July 2018, Ofwat launched a consultation under section 13 of the WIA on two proposed modifications of the licence conditions of 17 water companies, including TWUL. The first proposed modification would prohibit water companies from showing undue preference towards or undue discrimination against themselves, other water companies (including NAVs, water supply and/or sewerage licensees or unlicensed third parties in relation to the provision of certain water and sewerage services. The second proposed modification would place restrictions on the circumstances in which water companies could externally disclose or internally use information they were provided with in relation to the submission of bids to provide certain services or agreements for the adoption of infrastructure.

In September 2018, Ofwat published a consultation under section 13 of the WIA on proposed modifications to simplify various conditions of all 17 water companies' licences. A large number of conditions are affected but the purpose of the modification is to improve the clarity of conditions and remove redundant aspects. The proposed modification does not aim to change any underlying purpose or requirement. The most significant changes are to Condition F (accounting information only) and Conditions G, H & I which are largely combined into a new Condition G. Conditions R1 and R2 are being deleted as they ceased to have effect.

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 concludes that matters investigated in relation to water or sewerage services were anti-competitive or, in certain circumstances, against the public interest.

#### ***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. (for each respective breach) of its turnover in the preceding business year 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.

On the basis of a consultation launched in March 2016, Ofwat published an updated enforcement strategy in January 2017. Ofwat confirmed that its approach to enforcement is risk-based and aimed at securing companies' compliance with their licence and statutory obligations. Ofwat stated that although it is willing to use all powers vested in it under relevant legislation to secure compliance, where it finds that a company has breached its licence or a statutory obligation it may consider not opening a formal enforcement case if the company has taken appropriate steps to provide redress to customers or it may start formal proceedings but agree to reduce the penalty.

### ***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, both the WIA and the Licence restrict 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 was replaced with effect from 1 April 2015 with a system of four price controls (three for water only companies) covering water operations, waste operations, retail household and retail non-household. Thames Water has an additional fifth price control covering TWUL's Enabling Works for the TTT Project. The system retains its incentive based properties and each price control will operate for five years, with the exception of retail non-household. In its report titled "*Business Retail price review 2016: Final Determinations*" published on 15 December 2016, Ofwat set out the final determinations for retail non-household price controls for the three year period from 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 5 "*Description of the TWU Financing Group*".

The next price review is currently in preparation and will run from 1 April 2020 to 31 March 2025. The 2019 Final Determination (to be published in December 2019) will set out price controls, service commitments and the wider incentive framework for six separate binding controls: water resources; water network plus; wastewater network plus; bioresources; residential retail; and business retail (which is no longer applicable to TWUL since it has exited this market). Ofwat decided in its Final Methodology for the 2019 Price Review (December 2017) to revert to a five-year price control for business retail activities, and to continue with an additional price control for the TTT project (which is, in effect, a seventh price control published by Ofwat which is only applicable to TWUL).

### ***a. PR14***

#### ***Key features of the AMP6 price control framework***

A key feature of the AMP6 price control framework is Ofwat's ambition to set allowances independently of companies' Business Plans, based on economic models of the costs of an efficient water company. This places the onus on companies to manage their business in such a way that is sustainable over the long term. Ofwat is moving to an 'outcome based' regulatory model and hence has put in place performance outcomes, commitments and ODIs which affect all price controls (other than retail non-household). 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 5 "*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 performance 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 5 “*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 in AMP6 the industry wide Service Incentive Mechanism (“**SIM**”) that was introduced in AMP5 to measure and incentivise customer service performance. 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 per cent. (from 50 per cent.) and the weighting of the quantitative score has consequently decreased to 25 per cent (from 50 per cent.).

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

The three wholesale controls – in respect of 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 efficiency improvements. 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 5 “*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. It represents 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 choice for each of their wholesale controls, following the Final Determination 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 has 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. Revenue forecasting errors of between  $\pm 2$  per cent. of allowed revenue attract no penalties. Should forecasting errors exceed 2 per cent., a penalty interest rate is applied to the amount of the error and this interest charge will be deducted from allowed revenue at the price review in 2019. In the case where forecasting errors exceeded 6 per cent. of allowed revenue, TWUL would have to furnish an explanation to Ofwat in addition to incurring the penalty interest rate charge.

### ***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. metered 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***

TWUL is no longer affected by the retail non-household price control following its exit from the market through the sale of its retail non-household customers to Castle Water.

***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.

***Bulk Supply and special agreement charges:*** Bulk supplies, special agreements and access prices are special price terms that fall outside the standard tariffs that are outlined in TWUL's charges schemes.

Bulk supplies are a supply of water (potable or non-potable) and/or sewerage services from one appointed company to another. They can be from:

- an incumbent water undertaker to another incumbent undertaker (also referred to as a 'bulk transfer' or 'water trade'); or
- an incumbent undertaker to an appointee under a new appointment and variation (NAV) arrangement that serves a new development or large non-household user (a NAV is also referred to as an inset appointment).

Special agreements are made between non-household customers and a supplier where the relevant large user tariff is not in place.<sup>3</sup> These include trade effluent agreements.

Where a party applies to Ofwat for the bulk supply to be made or determined, Ofwat may 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 has the opportunity to apply for an interim determination between Periodic Reviews. An application for an interim determination can be made in respect of the following:

- Relevant Changes of Circumstance (i.e. a change in legal requirement, disposals of land and failure to achieve an output specified in the most recent determination);

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<sup>1</sup> Ensuring consistency in our approach to pricing disputes, Information Notice 13/08, Ofwat, 2013.

- Notified Items (as defined in Ofwat’s determination); and/or
- Other circumstances that have occurred which have a substantial favourable or adverse effect.

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.

**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 may 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 and the Regulated Company.

**Financial structure monitoring regime:** During 2015 Ofwat also introduced a ‘financial structure monitoring regime’. The purpose of the framework is to enhance visibility and transparency of financial and capital structures in the sector, assess industry financial resilience and the risks to customers posed by companies’ financial structures, and identify financial, structural and systemic risk which may impact on service delivery over time and prove harmful to customers. Ultimately, Ofwat can use the framework to identify whether it would be appropriate to intervene in the interests of customers.

#### **PR14 Reconciliation Rulebook**

On 4 October 2016, Ofwat issued its final amended reconciliation rulebook which forms part of the price review process which concluded in December 2014. The 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 rulebook also sets out the reconciliation approach to those factors not reconciled from the 2009 price review.

The 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 overperformance and underperformance is shared with customers;
- wholesale revenue forecasting incentive mechanism, which provides financial incentives for companies to provide accurate forecasts, and ensures underrecovery and overrecovery is reconciled;
- PR09 reconciliation (capital incentive scheme, blind year adjustments); and
- household retail, where the total revenue allowance is adjusted for actual customer numbers.

#### **b. PR19**

Ofwat’s final determination for PR19 will set out Regulated Companies’ price controls, service commitments and the wider incentive framework for six separate binding controls: water resources; water network plus; wastewater network plus; bioresources; residential retail; and business retail (which is no longer relevant to TWUL since it has exited this market), plus an additional control for the TTT project (which is, in effect, a seventh price control published by Ofwat which is only applicable to TWUL). The price controls under PR19 will apply from 1 April 2020 until 31 March 2025.

Ofwat published its final methodology for determining price controls under PR19 in December 2017 (subject to any subsequent amendments and clarifications). Under Ofwat’s timetable for PR19, Regulated Companies must

submit business plans for the period 2020 –2025 with Ofwat reaching its final determination for the price controls for each Regulated Company by December 2019.

There are a number of themes and building blocks that are common across the price controls under PR19, including the assessment of efficient costs and customer engagement, as well as the specification of outcomes that will be delivered for customers and the environment.

**Regulatory Capital Value (RCV):** Under PR19, the regulatory capital value of Regulated Companies will remain an important parameter underlying price controls set at Periodic Reviews. Under PR19, the indexation of RCV will switch, in part, from RPI to CPIH. CPIH will apply to 50 per cent. of the existing RCV from the beginning of AMP7, as well as to all new RCV additions from then onwards. The remaining part of the RCV from 2020 will continue to be indexed to RPI.

**Initial assessment of business plans:** Ofwat will conduct an initial assessment of the Regulated Companies' business plans, against nine test areas (engaging customers; addressing affordability and vulnerability; delivering outcomes for customers; securing long-term resilience; targeted controls, markets and innovation; securing cost efficiency; aligning risk and return; accounting for past delivery; and securing confidence and assurance) and three key characteristics (quality, ambition, and innovation) and will categorise Regulated Companies' business plans into four categories (significant scrutiny, slow-track, fast-track, or exceptional).

Regulated Companies with exceptional and fast-track business plans will receive a permitted financial uplift over the price review period. For both categories, the Regulated Companies will decide whether to take the incentive payment as additional revenue or as an uplift to their RCV. In either case, Regulated Companies will need to decide how to split this reward between the water network plus, water resources and, where relevant, wastewater network plus price controls. Regulated Companies whose plans are assessed to need significant scrutiny will be subject to financial penalties over the PR19 price review period.

**Adjustments to revenue to reflect performance:** The PR19 price control methodology will also introduce a revised system for incentivising performance service by TWUL. The ODIs will encourage TWUL to meet its performance commitments, rewarding the company if it exceeds its commitment and penalising it if it fails to achieve them.

Ofwat has set an expectation that Regulated Companies' ODI proposals will drive an expected range of ODI out/underperformance of  $\pm 1$ -3 per cent. of return on regulated equity ("**RoRE**") (from PR14 level of  $\pm 1$  per cent. to  $\pm 2$  per cent.). This range is not capped, but Ofwat expects Regulated Companies to propose approaches to protect customers in case their ODI payments turn out to be much higher than their expected RoRE range.

**Initial submission of business plan:** TWUL submitted its draft business plan to Ofwat on 3 September 2018. TWUL's plan for the 2020-2025 regulatory period, which has been developed in conjunction with customers, includes spending £11.7 billion operating and investing in its network to deliver its essential services to its customers. The plan includes a commitment to:

- reduce leakage by 15 per cent.;
- keep average bills flat before inflation over the five-year period;
- provide additional support to customers in vulnerable circumstances; and
- reduce gearing to 76.2 per cent. by 2025.

Additionally, TWUL included a proposal to share financial outperformance with customers. Whilst the proposal was not directly aligned to Ofwat's specifications detailed in their updated PR19 methodology set out in "*Putting the sector in balance: position statement on PR19 business plans*" published on 31 July 2018, TWUL's management team and Board believe that the proposal put forward in the draft business plan submission is in the



best interests of its customers. Ofwat are due to announce their initial assessment of business plans at the end of January 2019.

## **Environmental Regulation**

The activities of Regulated Companies are affected by the requirements of EU Directives which provide a common framework for stewardship of the environment and social considerations, and legislation and regulation at the national and local level. 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 bioresources which arise 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, which was opened in January 2016, was 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. The TTT Project 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. Although there is currently no regulatory requirement to prepare 'infiltration reduction plans' or 'drainage strategies' to manage such a risk, the EA has historically published regulatory position statements setting out their view that wastewater companies should submit such plans in catchment areas where, due to an area's geography, there is a risk of overflow following persistent rains. The introduction of a requirement to produce and follow 'infiltration reduction plans' or 'drainage strategies' may lead to considerable investment.

### ***Water Framework Directive***

The Water Framework Directive ("**WFD**") 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 was 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 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 WFD have been agreed with the EA through the Periodic Review process for 2015-20 and the final River Basin Management Plans published in February 2016. The list of 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 per cent. of water bodies) and a modest programme for 2015-20 implies, if not long-term noncompliance for the UK, then either a substantial relaxation of objectives or a massive investment programme starting 2020.

The WFD 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 share of a national comprehensive sampling and technology demonstration programme, Chemical Investigations Programme (2). The aim is to be able to better understand the potential for non-compliance as well as test the efficacy and feasibility of technologies to be able to reduce the risk of non-compliance and the associated costs for these. This work will continue for the duration of AMP6, until March 2020, with TWUL sampling 109 sewage works and receiving waterbodies for two year periods, and trialling three different technologies to aid in developing a national picture.

### ***Industrial Emissions Directive and H4 Odour Guidance***

The Industrial Emissions Directive (“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 bioresource treatment centres as an activity that requires IED permitting. If this approach were to change, then it is probable that all of TWUL’s 30 bioresource treatment centres would require a bespoke Environmental Permit, with attendant cost and additional requirements.

Even if bioresource 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, bioresource 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 introduced, in any event more stringent odour requirements and management plans for existing sites that have Environmental Permits. Under the H4 guidance, operators of sites with Environmental Permits are required to assess the level of odour emanating from their sites based on their frequency, intensity and duration, as well as the sensitivity of

receptors. On the basis of such assessment, an operator must implement control measures to minimise the odour and suggested control measures are set out in the guidance. If the odour levels are unreasonable (despite having used appropriate measures), further action may be required or the operator may be required to cease operations.

### ***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. In March 2016, the Environment Agency published flood risk management plans for the 11 river basin districts wholly or mainly in England. 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 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.

### ***Priority Substances Directive***

The Priority Substances Directive 2008/105/EC (**“Environmental Quality Standards Directive”**), which is a Daughter Directive of the Water Framework Directive, sets environmental quality standards for the substances in surface waters (rivers, lakes, transitional and coastal). The Environmental Quality Standards Directive 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. This investigation (the **“Chemical Investigation Programme”**) is intended to provide the technical basis to inform UK policy decisions regarding implementation of the Environmental Quality Standards Directive; the requirements of the Environmental Quality Standards 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 the Environmental Quality Standards Directive. 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.

## Competition in the Water Industry

### *General*

Each Regulated Company currently effectively holds a geographic monopoly within its appointed area for the provision of water operations and sewerage services although there is some limited competition and in respect of its retail activities, there is competition in respect of all non-household customers (except in Wales). 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. Ofwat has a duty to consider whether the exercise of its powers under the Competition Act is more appropriate before using its powers under the WIA to promote competition.

The current main methods for introducing competition are:

- (a) since 1 April 2017, all non-household customers are able to choose their water and/or sewerage supplier. TWUL has exited this market and is no longer permitted by its Instrument of Appointment to operate in the non-household retail market;
- (b) new appointments and variations (NAVs) – where one company can replace another as the statutory undertaker for water and / or sewerage services in a specified geographical area within the other Regulated Company's appointed territory. NAVs 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 at least 50 megalitres of water are supplied or likely to be supplied to particular premises wholly or mainly in England in any 12-month period or where the incumbent Regulated Company agrees to transfer part of its service area to a different company. The NAV mechanism continues alongside the regime for licensing new entrants under the Water Act 2014;
- (c) 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;
- (d) water supply licence (combined) - the Water Act 2003 introduced a statutory framework to allow water supply licensees to introduce water into the undertaker's supply system in order to supply water to its customer's eligible premises (also known as "common carriage"). All Regulated Companies maintain network access codes which set out the conditions, including indicative access prices, under which licensees may introduce water into their networks. A water supply licensee may challenge the terms of access, in particular access prices to the Regulated Company's network under the Competition Act;
- (e) cross-border supplies (raw/treated water and sewage/bioresource) where a customer in an area adjacent to a neighbouring Regulated Company's service area can connect to another Regulated Company's network and receive a supply;
- (f) private suppliers or private sewers including on-site water and effluent treatment;
- (g) Competition Act – Ofwat has concurrent powers with the CMA to apply UK/EU competition law on anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry. In March 2017, Ofwat published guidance on its approach to applying the Competition Act and the corresponding provisions in Articles 101 and 102 of the Treaty on the Functioning of the European Union in the water and wastewater sector in England and Wales; and
- (h) from 2020, emerging markets in water resources, bio-resources, leakage detection and demand management.

## ***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.

The Water Act 2014 introduced, with effect from 18 December 2015, 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. Before making a first phase decision, the CMA must consult with Ofwat. 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. As of July 2017, one merger (Severn Trent Plc / Dee Valley Group plc) has taken place under this new regime with the remaining mergers of water companies having been reviewed by the CMA under the general merger regime.

## **Regulatory Developments**

### ***Water 2020***

Following on from its December 2015 consultation, Ofwat issued its final Water 2020 Paper in May 2016, which includes specific areas for further consultation about the role of markets and the regulatory framework for the 2019 price review. Ofwat concluded its methodology in December 2017 (see below). The following new proposals will apply from April 2020:

- (i) **Indexation:** Ofwat has amended all water company licences so that wholesale revenues will be indexed by CPIH from 1 April 2020. 50 per cent. of the RCV as at 1 April 2020 will be indexed going forward

by RPI. The remainder of the RCV as at 1 April 2020 and all additional RCV accrued on and after 1 April 2020 will be indexed by CPIH.

- (ii) **Bioresources:** Ofwat has amended all water company licences to create a binding separate price control for bioresources as from PR19 (sludge, a by-product of wastewater treatment which is increasingly being seen as a resource), separate from the wastewater transport and treatment price control (“**network plus**”) and to ensure information is provided and shared to enable and incentivise the development of bioresource markets. Ofwat has stated that pre-2020 RCV will be protected through the design of the regulatory framework for bioresource treatment and disposal in the PR19 process and no explicit mechanism is needed. However, Ofwat has stated that it will consider adopting a mechanism for PR24 if this is needed. The new bioresource price control will reflect the relevant proportion of its RCV. RCV will be allocated to the new bioresource price control on a focused basis and Ofwat will consult on the methodology for such allocation going forward.
- (iii) **Water resources:** Ofwat has amended all water company licences to create a binding price control for water resources, separate from the water operations transport and treatment price control (“**network plus**”). The water resource price control will differentiate between revenue for pre- and post-2020 water resource capacity. The latter will be exposed to utilisation risk, the former will not. The total revenue control will constitute two elements: (a) a fixed element (e.g. £X million per annum); and (b) a mechanistic in period adjustment factor that allows for bilateral market entry. As with bioresources, RCV will be allocated to this new price control. However, Ofwat has stated that this will be done on an unfocused basis, meaning that instead of a methodology required to value the relevant constituent parts of the business, it will be for each water company in making its PR19 application to develop and justify the allocation of RCV for its water resource price control. Ofwat provided guidance for water companies on this on 31 January 2017. Ofwat may revise the allocation of the RCV between “network plus” and water resources at PR24 if this is needed to adequately protect pre-1 April 2020 RCV. In addition to these changes, an additional licence change will be made to ensure that basic information for supply-demand deficits and water resource costs in a consistent format is available and to require water companies to allow reasonable commercial and non-commercial use of this public data.
- (iv) **Direct procurement:** Ofwat will also encourage incumbent water undertakers to use direct procurement for suitable discrete enhancement schemes with a whole-life totex guideline value of more than £100 million. Ofwat has also said that discrete enhancement schemes under this guideline value may also be eligible for direct procurement.

Following the notice of the proposal issued under the WIA and published in November 2016, Ofwat announced in April 2017 that Ofwat has modified the licences of the 17 largest water companies to enable some of the Water 2020 policy decisions to be implemented for PR19, including (i) changes to Condition B (Charges) to allow separate controls to be set at a price review for water resources, and bioresources and water and wastewater network plus; (ii) changes to ensure that either CPIH is used from 2020 (instead of RPI) in Condition B and Condition K; (iii) changes to Condition B to allow future in-period adjustments to price control revenue for outcome delivery incentive (ODI) rewards and penalties for the 17 water companies and (iv) changes to enable market information databases in relation to water resources and bioresources.

## **PR19**

### ***Future Changes to Price Limits***

Ofwat has confirmed its approach to the next price limit period (PR19), in a set of documents dated 13 December 2017. This set of documents confirms Ofwat’s approach to remunerating returns in the wholesale and retail price controls, including setting the cost of capital by reference to a notional capital structure.

The published methodology follows the direction of travel flagged in Water 2020 save for the proposal to amend retail price controls from five years to three. Ofwat is promoting four key themes – great customer service, resilience, affordability and innovation. It will set stretching performance targets (upper quartile) and use more powerful ODIs for all companies. Outcomes were first introduced as part of the PR14 and are considered as being one of the key elements of the PR19. Ofwat expects a further step change in customer engagement. Specific proposals included in the published methodology include:

- ***detail in relation to the expected AMP7 price control framework:*** further disaggregation of price controls (bioresources and water resources) to facilitate markets; 14 common performance commitments increased focus on relative performance and reputational impact; more powerful ODIs with greater financial and reputational impact; totex menus replaced by cost sharing incentive for network plus and water resources controls to encourage submission of efficient plans; use of forecast data for benchmarking wholesale efficiency; and a contractual approach to DPC.
- ***enhancements to the measure of customer service:*** the existing SIM system will be replaced in AMP7 with a new measure of customer service protection, WaterworCX. WaterworCX is to be comprised of two new mechanisms – Customer Measure of Experience (**‘C-MeX’**) and Developer Services measure of Experience (**‘D-MeX’**). C-MeX is the new customer experience measure which will include higher potential financial rewards than SIM, while D-MeX is a financial and reputational incentive for developer services customers;
- ***amendments to the regulatory capital value framework:*** protective adjustments to regulatory capital value, which are currently made in line with RPI (see “*Regulatory Capital Value*” above), will be made in line with CPIH. Further, Ofwat’s separation of price controls into network plus (for wholesasle water and waste water), water resources and bioresources means the RCV is to be allocated between the business units. For bioresources, companies take a focussed approach using an economic asset valuation method; for water resources, an unfocused approach is used based on net modern equivalent asset value.

Ofwat has supplemented its methodology for PR19 with amendments and clarifications. In particular, Ofwat published “Putting the sector back in balance: summary of Ofwat’s decision on issues for PR19 business plans” on 3 July 2018 setting out amendments and clarifications to the PR19 methodology relating, notably, to a proposal for Regulated Companies to share financial outperformance for gearing materially exceeding Ofwat’s notional assumptions. Following the changes introduced by Ofwat, Regulated Companies will, in particular, be required to: (a) set out proposals to share benefits with customers where Regulated Companies have gearing that is materially above the notional level that underpins price controls; (b) explain in business plans how dividend policies in 2020-25 take account of how companies deliver for customers over the price control period; and (c) set out transparently in business plans for customers and wider society, how performance related executive pay will reward stretching delivery for customers. On 31 July 2018, Ofwat published “Putting the sector in balance: position statement on PR19 business plans” which confirmed Ofwat’s changes to its 2019 price review methodology announced on 3 July 2018 and set out its final position on the consultation, a summary of issues raised by respondents, the detailed rationale for its decisions and an assessment of the likely impact.

#### ***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. It also aims to offer consumers more choice by enabling them to easily switch water and sewerage suppliers 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 (overseen

by the Environment Agency) 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 further includes provisions for, among other things:

- (a) facilitating bulk supply agreements and mains connection agreements by revising the rules relating to bulk 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 EA's 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 (rather than 12 months) after the breach;
- (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.

### ***A Better Deal***

On 30 November 2015, the Government announced in "*A Better Deal: boosting competition to bring down bills for families and firms*" that it intends to introduce household retail competition to the water sector in England. It asked Ofwat to provide an assessment, by summer 2016, of the costs and benefits of extending retail competition to household customers. Ofwat submitted its final assessment in September 2016 which concluded that evidence suggests that a net positive outcome of introduction of competition to the residential retail water market is more likely than not, with Ofwat noting that there are potential benefits worth around £2.9 billion over 30 years if competition is extended to household customers. It is now up to the Government to take a decision on whether retail competition should be extended to household customers. The Government decision on the extension to household customers is not expected until at least the end of the current Parliament or early in the following Parliament.

### ***Exit Regulations***

The Water and Sewerage Undertakers (Exit from Non-household Retail Market) Regulations 2016 (the "**Exit Regulations**"), which came into force on 3 October 2016, provide for water and sewerage undertakers whose areas are wholly or mainly in England to apply to the Secretary of State for permission to exit the non-household retail market in their area of appointment.



Pursuant to the Exit Regulations, TWUL notified the Secretary of State that it would exit its non-household retail activities. On 13 April 2017, the Secretary of State granted permission for TWUL to withdraw from the non-household retail market by transferring its retail non-household business to Castle Water (effective on 1 April 2017). TWUL is consequently prohibited from providing retail services to any new non-household customers that arise in its area of appointment. In addition, under a commercial agreement between it and TWUL, Castle Water had an obligation to deliver retail non-household services as agent for TWUL for the period up to market opening and it continues to be under an obligation to collect legacy debt in respect of that period on behalf of TWUL. This agreement contains enforceable service level standards based on agreed performance levels and TWUL has intervention, step-in and termination rights in certain circumstances.

### ***Changes to the Regulatory Accounting Guidelines***

On 31 March 2016, Ofwat published a review of the accounting treatment of water and wastewater and water-only companies' business units for bioresources and water resources which was prepared by Cambridge Economic Policy Associates ("CEPA"). A separate review was carried out in relation to the seven water-only companies to ensure that all potential issues were covered, particularly those which are specific to water only companies. Following CEPA's reports and a short Ofwat consultation in August 2016, Ofwat published an information notice on 9 October 2016 summarising the changes it has made to the Regulatory Accounting Guidelines that water and wastewater companies in England and Wales must follow in preparing their annual performance reports. In November 2017 Ofwat published an information notice summarising the changes made to the regulatory accounting guidelines that water and wastewater and water-only companies in England and Wales must follow in preparing their annual performance reports.

### ***Bulk supply and discharge pricing***

In its November 2017 paper "New connections charges rules from April 2020 – England: Decision Document", Ofwat set out a new approach to:

- requisition charges (where Regulated Companies lay new infrastructure at developers' request);
- asset payments (where Regulated Companies pay for water mains laid by a developer);
- charges for new infrastructure laid by Regulated Companies to enable new inset appointees to take a bulk supply from, or make a bulk discharge to, an incumbent Regulated Company;
- payments for new infrastructure laid by new inset appointees to enable them to take a bulk supply from, or make a bulk discharge to, an incumbent Regulated Company; and
- infrastructure charges (which are a one-off charge levied by Regulated Companies each time premises are connected to the water or sewerage network).

In order to provide a 'level playing-field' between Regulated Companies, developers and new inset appointees, Ofwat will (as soon as primary legislation allows) set out rules whereby:

- deductions from the standard infrastructure charge will replace asset payments and payments for infrastructure laid by new inset appointees; and
- additions to the standard infrastructure charge will replace requisition charges and charges for infrastructure laid by Regulated Companies to facilitate new inset appointments.

These arrangements, which were confirmed in Ofwat's May 2018 paper "Bulk Charges for NAVs: Final Guidance" are likely to be implemented from April 2020. Their effect is to spread the current proportion of the overall cost of

infrastructure for new development among all developers whomever they choose to deal with, whether Regulated Companies, new inset appointees, or self-lay providers. Ofwat's intention is to boost the market for self-lay and new inset appointees.

### ***The Retail Exit Code Consultation***

In March 2018, Ofwat released a consultation titled "Retail Exit Code: Price protections beyond March 2020" (the "**REC Consultation**"). The Retail Exit Code sets out requirements for price and non-price terms in the default tariffs offered to non-household water and sewerage customers in England that have not yet engaged with the recently opened retail market. The price requirements are linked to PR16 which is due to expire at the end of March 2020. Ofwat is now reviewing the responses to its consultation on the appropriate framework and methodology for retail price protection after March 2020 for which Ofwat identified four options going forwards: (i) removal of price protections; (ii) specifying only that prices must be reasonable and non-discriminatory; (iii) maintaining a control based on PR16, possibly with some adjustments; or (iv) setting up a price control based on a new underlying model. The REC Consultation is not legally binding and Ofwat is reviewing the responses it has received from stakeholders on the proposals. The outcome of the REC Consultation and any subsequent modifications to the Retail Exit Code are currently unknown.

### ***Updated guidance on trading and procurement codes***

In May 2018, Ofwat released updated guidance on trading and procurement codes titled "Trading and procurement codes – guidance on requirements and principles". This guidance covers the requirements and principles that must be addressed in trading and procurement codes for water companies to claim water trading incentives for new trades. Ofwat has revised its guidance to reflect market developments and to provide greater clarity on the requirements for claiming incentives for new trades from 2020-2025. Ofwat has streamlined the approval process for new codes, which will now involve a four-week public consultation and, if no comments are received, automatic approval. Ofwat is requiring existing codes to be updated to align with the revised guidance by June 2020.

### ***Licence fees for water companies and WSSL licences***

In June 2018, Ofwat published an information notice setting out changes to how, when determining the level of licence fees, Ofwat will allocate relevant costs between companies holding appointments as water and/or sewerage undertakers (appointed water companies) and water supply and/or sewerage licensees (WSSL licensees). Appointed water companies and WSSL licensees are required to pay licence fees to Ofwat, the Consumer Council for Water and the Competition and Markets Authority. Ofwat is simplifying the licence fee structure by calculating the flat fee element of licence fees by licence, rather than by licence holder, for both the Consumer Council for Water's and Ofwat's costs.

### ***Thames Tideway Tunnel Price Controls***

On 6 July 2018, Ofwat published a consultation on its plans to modify Condition B of TWUL's licence in order to allow Ofwat to set a separate price control for the period 2020-2025 for TTT activities. A continuing separate control will allow Ofwat to provide a tailored uncertainty mechanism and materiality threshold that would not otherwise be possible. This will provide TWUL an appropriate level of risk for the project during its construction phase, and customers will therefore pay an appropriate amount for TWUL's investment. Extending the separate price control for a further five years will also enable the disposals of land, purchased by TWUL to facilitate the project, to be dealt with in a separate price control. On 24 September 2018, Ofwat confirmed that the change to

Condition B of TWUL's licence has been made. However, such changes have not been published as at the date of this Prospectus.

### ***Ofwat Leakage Investigation***

In June 2018, TWUL reached an agreement with Ofwat on a package of payments and penalties worth £120 million. This agreement concluded an Ofwat investigation which found that TWUL's Board did not have sufficient oversight and control of the company's leakage performance. The £120 million package includes £65 million in customer rebates and £55 million in automatic penalties incurred by the company for missing the commitment it made to cut leaks. As part of its proposed settlement, TWUL has committed to getting its leakage performance back in line with what it had promised it would deliver for its customers in 2019-2020. It will also publish its performance each month in tackling leaks, appoint an independent monitor to certify the information in its monthly leakage reports, make additional leakage reductions of 15 per cent. by 2025 (and 50 per cent. in future price control periods), supply more detailed and externally audited evidence when providing Ofwat with certificates under Condition F of its licence assuring that it has adequate resources, systems and controls in place to meet its statutory obligations and do more to engage with customers on leakage issues and ensure the Board engages personally and regularly in the customer engagement programme.

### **Customers' Interests**

#### ***Service Incentive Mechanism***

As described above in Chapter 5 "*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 will replace this mechanism with a new incentive mechanism, WaterworCX, as from AMP7 (see "*Future Changes to Price Limits*" above). WaterworCX comprises C-MeX and D-MeX, which are both financial and reputational incentives to improve the satisfaction of Regulated Companies' residential and new connections customers, respectively.

#### ***Guaranteed Standards Scheme***

The Guaranteed Standards Scheme ("GSS") is underpinned by regulations made under sections 38(2) to (4), 95(2) to (4) and section 213 of the WIA, which prescribe minimum levels of service 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 TWUL's 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.

In August 2018, Ofwat initiated a review of the GSS. The review is predominantly focussed on whether the standards and payments for unplanned supply interruptions should be updated. Ofwat's initial call for evidence closed on 11 September 2018, and following its review of the evidence, it will make a recommendation to the UK

and Welsh Governments to amend the GSS arrangements in line with its findings. Any changes to GSS will require the English and Welsh Governments to amend the Water Supply and Sewerage Services (Customer Service Standards) Regulations 2017.

#### ***Abstraction Incentive Mechanism***

In April 2016, Ofwat began 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 are currently reputational, though Ofwat has decided the incentives will also be financial in PR19.

#### ***Code for Adoption Agreements***

In its “Code for Adoption Agreements” of November 2017, Ofwat required Regulated Companies operating mainly in England to agree, in consultation with developers and self-lay providers, a standard set of arrangements for adopting water and sewerage infrastructure laid by developers. Among the detail of this Code was a requirement for companies to provide “redress” for failing to meet certain standards in the self-lay process. The detail of any redress has yet to be worked out, but it is fairly certain that some sort of monetary payment will be involved.

## 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 Obligor.

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 TWUL under any Currency Hedging Agreement in relation to Class B Debt, all fees, interest and principal payable by the Issuer 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 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 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 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 Payment 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 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 or TWUL other than proceedings that are commenced by the Security Trustee;
- (b) (during the first 18 months of the Standstill Period) Class A DIG Representatives in respect of  $66\frac{2}{3}$  per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Class A Debt) Class B DIG Representatives in respect of  $66\frac{2}{3}$  per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class B Debt vote to terminate the Standstill Period (see the section “Standstill Extension” below); or
- (c) the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period.

The occurrence of a Standstill will not of itself prevent the Issuer 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  $33\frac{1}{3}$  per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 60 day period to terminate the Standstill Period; and
- (c) following the period referred to in 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 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 and the Issuer 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 (except Secured TWUF Bonds) 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 in respect of the Secured TWUF Bonds is and will be backed by an aggregate matching debt obligation owed by TWUL to the Issuer under a loan agreement (each a “**TWUF/TWUL Loan Agreement**”).

All advances made or to be made by the Issuer under the Issuer/TWUL Loan Agreements and by the Issuer 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 in accordance with the Hedging Policy (see the section “Hedging” below), at the hedged rate plus, in each case (other than advances by the Issuer in respect of the outstanding principal amount of the Secured 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) 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 the Issuer 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 Arranger and the Trustee’s legal advisers, the Issuer’s legal advisers and certain fees due to liquidity providers.

TWUL is responsible for paying the fees and expenses of the Security Trustee together with other Secured Creditors.

TWUL has and will, by way of facility fees under the Issuer/TWUL Loan Agreements or the TWUF/TWUL Loan Agreement, 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.

### **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 and the Issuer represented that its activities have been limited prior to the Initial Issue Date to support their bankruptcy remote status.

## **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 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 Investors' 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, Bazalgette 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 Bazalgette.

### **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 three 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 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 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 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, the Issuer 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 Bazalgette and its Affiliates on arm’s length terms and subject to Condition K (3) (the financial ring-fencing provisions) of the Instrument of Appointment.

## 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) The Issuer has further undertaken (and TWUL has undertaken to procure that the Issuer 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) 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 or, as the case may be, TWUL estimates, in its reasonable opinion, is equal to the net amount payable by the Issuer 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 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 TWUL Bond Debt and Class B Debt (although it will not be a Trigger Event if it is triggered as a direct result of a banking error and remedied by such amount being repaid within three Business Days without such repayment being funded by a further drawing under a DSR Liquidity Facility).

If the Issuer draws down under an O&M Reserve Facility or either the Issuer or TWUL withdraws funds from either O&M Reserve Account, in either case to pay TWUL's operating or maintenance expenditure.

(f) *Enforcement Order*

An Enforcement Order is issued under Part II, Chapter II of the WIA against TWUL which would have a Material Adverse Effect if not complied with.

(g) *Circumstances leading to a Special Administration Order*

Any published indication or occurrence of other circumstance that would reasonably be expected to lead to an application by Ofwat or the Secretary of State for a Special Administration Order to be made in respect of TWUL.

(h) *Termination of Instrument of Appointment*

The giving of a notice to terminate the Instrument of Appointment under the WIA.

(i) *Event of Default*

An Event of Default is continuing.

(j) *Referral regarding Substantial Effects Clause*

A referral is made under Paragraph 14.2 of Condition B of the Instrument of Appointment (or any successor or equivalent paragraph) as a result of any materially adverse event.

(k) *Audit Qualification*

The Auditors qualify their report of any member of the TWU Financing Group in a material manner which causes the financial ratios calculated in accordance with the CTA to not reflect the true position of TWUL in a materially adverse manner.

(l) *Adverse Governmental Legislation*

The commencement of the final reading of new legislation impacting upon Relevant Undertakers (as that term is defined in the WIA) if such legislation would (if enacted) lead to a breach of the financial ratios set out above or cause a material deviation in projections as set out above (in each case, taking into account any actions available to TWUL to mitigate or cure the same).

(m) *Modification or Replacement of Instrument of Appointment*

If within six months of an announcement setting out clear proposals (including a related timetable to effect such proposals) by Ofwat for the modification or replacement of the Instrument of Appointment which, if implemented, would have a Material Adverse Effect, TWUL has not obtained confirmation from Ofwat that the proposed modification or replacement is not expected to be implemented or is expected to be implemented in a form which is not reasonably expected to have a Material Adverse Effect.

(n) *Conduct of Business*

The Permitted Non-Appointed Business Limits are breached.

(o) *Adverse Final Determination of K*

A final determination of K by Ofwat which is reasonably likely to have a Material Adverse Effect (taking into account any remedies available to TWUL).

(p) *RPI Linked Hedging Agreements*

On any Calculation Date, the aggregate amount of all accretions by indexation to the original notional amounts of any RPI Linked Hedging Agreements exceeds 8 per cent. of Class A Net Indebtedness as at that Calculation Date.

**Trigger Event Consequences**

Following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived or deemed remedied in accordance with the CTA, certain consequences will result, including:

- (a) no Obligor may make Restricted Payments and TWUL must not declare and must stop any implementation of any Deferrals of K;
- (b) TWUL must provide such information as to the relevant Trigger Event as may be properly requested by the Security Trustee. TWUL must discuss with the Security Trustee (at a mutually convenient time and location) its plans for appropriate remedial action and the timetable for implementation of such action. Any agreed remedial action must then be implemented by TWUL;
- (c) the Security Trustee, may, acting on the instructions of the Majority Creditors, commission an Independent Review to be conducted by technical advisers to the Security Trustee (appointed subject to prior consultation with TWUL) to examine the causes of the relevant Trigger Event and recommend appropriate corrective measures;
- (d) subject to prior notification to TWUL if practicable, the Security Trustee shall be entitled to discuss the relevant Trigger Event and any Remedial Plan with Ofwat; and
- (e) restriction on payments by TWUL under Outsourcing Agreements and/or Capex Contracts with Associates which do not comply with the Outsourcing Policy.

**Trigger Event Remedies**

At any time when the Issuer 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 as amended from time to time (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.

The Issuer is required to open and maintain the following Accounts with the Account Bank:

- (a) a Transaction Account;
- (b) a Class A Debt Service Reserve Account;
- (c) a Class B Debt Service Reserve Account; and
- (d) an O&M Reserve Account.

TWH is permitted to open and maintain one chequing account only with the Account Bank.

Each of the Issuer 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 or TWUL under any Authorised Credit Facility or other Permitted Financial Indebtedness and, in the case of drawings made by the Issuer, 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**

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 the Issuer shall be treated as having simultaneously discharged TWUL’s corresponding obligation to pay on such Payment Date to the Issuer facility fees, interest, principal, indemnity amounts and other sums due to the Issuer 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 or 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):

- (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 the Issuer’s obligation to pay such amounts, payment of the remuneration, costs and expenses of the Secured 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 obligation to pay such amounts, the remuneration, costs and expenses of the Account Bank under the Account Bank Agreement and the remuneration, costs and expenses of each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (c) the Issuer’s obligation to pay such amounts, the remuneration, costs and expenses of each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; (d) the Issuer’s and/or TWUL’s obligations to pay such amounts, the remuneration, costs and expenses of each Facility Agent and each Authorised Credit Facility Provider under the relevant Authorised Credit Facility and the Standstill Cash Manager; (e) the remuneration, costs, expenses and fees of each Financial Guarantor pursuant to the relevant G&R Deed; and (f) the Issuer’s obligation to pay such amounts, the costs and expenses of the Issuer 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 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 under its DSR Liquidity Facilities, in payment to the Class A Debt Service Reserve Account of the Issuer 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 or TWUL 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 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 Issuer’s Class A Debt Service Reserve Accounts, the Issuer’s Class B Debt Service Reserve Account or the Issuer’s O&M Reserve Account, as required.

The Issuer 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 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 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 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 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 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*" under "*Security and protection of assets (Protected Land)*" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*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 is required to accede to the Security Agreement as an Obligor.

### 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

Fixed and floating charge  
(principal secured asset is its holding of  
shares in TWUL)

TWH

#### GUARANTEE

Guarantees all obligations of TWUL 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 the Issuer under the Finance Documents
Fixed and floating charge	ISSUER	Guarantees all obligations of TWUL 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 or in a Drawdown 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 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 and the Issuer (or, historically, TWUCFL) have entered into various bilateral and syndicated bank facilities, which incorporate and are subject to the terms of the STID and CTA. In respect of an Authorised Credit Facilities historically entered into by TWUCFL, the Issuer has been substituted as the principal debtor and TWUCFL has ceased to be a party.

## **The Liquidity Facilities**

### ***DSR Liquidity Facilities***

The Issuer has entered into (and will renew or enter into similar facilities, as appropriate) a DSR Liquidity Facility Agreement. 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.

TWUCFL has entered into a Class A DSR Liquidity Facility Agreement and a Class B DSR Liquidity Facility Agreement on 13 August 2015 (the “**DSR Liquidity Facility Agreements**”) in respect of which the Issuer was substituted as the principal debtor and TWUCFL has ceased to be a party. The DSR Liquidity Facility Agreements were restated on 18 August 2016 and the Issuer has the right to request a renewal of the DSR Liquidity Facility Agreements on equivalent terms subject to, among other things, an increase of the commitments under the DSR Liquidity Facility Agreement and changes to the fees payable pursuant to the DSR Liquidity Facility Agreements. 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 relevant DSR Liquidity Facility Agreement to permit drawings to be made by:

- (a) the Issuer 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) the Issuer where TWUL 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 under the DSR Liquidity Facilities will be on-lent by the Issuer to TWUL under the relevant Issuer/TWUL Loan Agreement.

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.

Unless otherwise agreed by the Issuer 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***

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 O&M Reserve Facility Agreement was restated on 18 August 2016 and the Issuer has the right to request a renewal of the O&M Reserve Facilities on equivalent terms subject to, among other things, an increase of the

commitments under the O&M Reserve Facilities and changes to the fees payable pursuant to the O&M Reserve Facility Agreement.

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 the Issuer (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 is, 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 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 and the Issuer. (See "Hedging Policy" under "Common Terms Agreement" above for further detail)

## **Termination**

The Issuer 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 or, as the case may be, TWUL to make payment when due;
- (b) certain insolvency events affecting the Issuer 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 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 or, as the case may be, TWUL at least one year's prior notice in writing of its intention to exercise such right of termination; and
- (b) the aggregate notional amount and/or sterling currency amounts (as applicable) of interest rate Treasury Transactions pursuant to which Hedge Counterparties have such right of termination does not exceed 5 per cent. of RCV.

In the event that a Hedging Agreement or a Treasury Transaction is terminated, a termination payment may be due from the Issuer 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).

### **Tax Deed of Covenant**

Pursuant to the Tax Deed of Covenant, among other things, all the parties thereto which are members of the Thames Water Group have made representations and given covenants with a view to protecting the Obligors from various tax-related risks.

Under the terms of the Tax Deed of Covenant, each Obligor has given certain representations and covenants as to its tax status and to the effect that, subject to the Obligors' membership of the TWUL VAT Group, it has not taken and, save in certain permitted circumstances, will not take any steps which could reasonably be expected to give rise to a

liability to tax for an Obligor where that tax is primarily the liability of another person (a “**Secondary Tax Liability**”) and, save in certain permitted circumstances, that it will not take any steps and will procure that no steps are taken which would cause any Obligor to become subject *inter alia* to any charge to corporation tax on chargeable gains under Section 179 of the Taxation of Chargeable Gains Act 1992 or to stamp duty land tax as a result of the withdrawal of group relief under paragraph 3 or 9 of schedule 7 to the Finance Act 2003 (each a “**Degrouping Tax Liability**”).

Kemble Water Holdings Limited 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, TWH and the Issuer. 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 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) having been a member of the TWUL VAT Group.

## 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 plc, trading as Euronext Dublin (“Euronext Dublin”) 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 Finance plc (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 completed, 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) completes 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(l) (*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(l) (*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, 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 (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 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 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 (i) 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; (ii) during the period of 15 days before any date on which that Bonds may be called for redemption by the Issuer at its option pursuant to Condition 8(b) (*Optional Redemption*) or Condition 8(j) (*Redemption at the Option of the Issuer (Issuer Maturity Call)*); or (iii) after that Bond has been called for redemption.

### **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 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, TWH and the Issuer (for so long as they remain Obligors).

(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.

(v) *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*).

(vi) *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(l) (*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(l) (*Definitions*)) which appear on the Page as of the Relevant Time (as defined in Condition 6(l) (*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(l) (*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(l) (*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(l) (*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(l) (*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(l) (*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.

(vii) *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(l) (*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(l) (*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 Euronext Dublin 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 Euronext Dublin 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(l) (*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) *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, TWH, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, TWUL, TWH, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, any calculation agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(l) *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:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30”;

- (vi) if “30E/360” or “Eurobond Basis” is specified, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30”;

- (vii) if “30E/360 (ISDA)” is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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



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

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

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

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

“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 Issuer) 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 Issuer 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 Issuer in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by 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) 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; (ii) if HICP is specified in the relevant Final Terms, 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; (iii) if CPI is specified in the relevant Final Terms, the UK Consumer Prices Index published by the Office for National Statistics (January 2015 = 100) or any comparable index which may replace the UK Consumer Prices Index for the purpose of calculating the amount payable on repayment of the Reference Gilt; or (iv) if CPIH is specified in the relevant Financial Terms, the UK Consumer Prices Index including Owner Occupiers’ Housing costs and Council Tax published by the Office for National Statistics (January 2015 = 100) or any comparable index which may replace the UK Consumer Prices Index including Owner Occupiers’ Housing costs and Council Tax 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:

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

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

“IFA” means the Index Figure applicable;

“RPI<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:

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

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

“IFA” means the Index Figure applicable;

“ $\text{RPI}_{m-8}$ ” means the Index Figure for the first day of the month that is eight months prior to the month in which the payment falls due;

“ $\text{RPI}_{m-7}$ ” means the Index Figure for the first day of the month that is seven months prior to the month in which the payment falls due;

“Index Ratio” applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

“Limited Index Ratio” means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month 12 months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

“Limited Indexation Factor” means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month 12 months prior thereto, **provided that** (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms 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 January 2015, as applicable, (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** (i) Floating Rate Bonds may not be redeemed before the date specified in the relevant Final Terms or Drawdown Prospectus and (ii) if the term "Issuer Maturity Call" is also specified to be applicable in the applicable Final Terms, such redemption date falls prior to the start of the Issuer Maturity Call Period, 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 (other than where the Index is specified as CPI or CPIH in the relevant Final Terms or Drawdown Prospectus), 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.

In respect of Indexed Bonds where the Index is specified as CPI or CPIH in the relevant Final Terms or Drawdown Prospectus, 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 sum of: (A) 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, (B) accrued but unpaid interest (as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)) on the Principal Amount Outstanding, and (C) such rate as may be specified in the relevant Final Terms of Drawdown Prospectus.

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 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.

(j) *Redemption at the Option of the Issuer (Issuer Maturity Call)*

If the term “Issuer Maturity Call” is specified in the applicable Final Terms, the Issuer may, having given not more than 30 nor less than 15 days’ notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders (or such other notice period as may be specified in the applicable Final Terms), which notices to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders only shall be irrevocable and shall specify the date fixed for redemption, redeem any Sub-Class of the Bonds in whole or in part (but on a pro rata basis only) then outstanding at any time during the Issuer Maturity Call Period at the Final Redemption Amount specified in the applicable Final Terms, together (if appropriate) with interest accrued (but unpaid) to (but excluding) the date fixed for redemption.

For the purposes of these Conditions, “**Issuer Maturity Call Period**” has the meaning given to it in the applicable Final Terms.

## 9 Payments

(a) *Bearer Bonds*

Payments to the Bondholders of principal (or, as the case may be, Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts) in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and provided that the Receipt is presented for payment together with its relative Bond), Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Bonds in definitive form only) a cheque payable in that currency drawn on, a bank in (i) the principal financial centre of that currency provided that such currency is not euro, or (ii) the principal financial centre of any Participating Member State if that currency is euro.

(b) *Registered Bonds*

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond at the specified office of the Registrar and in the manner provided in Condition 9(a) (*Bearer Bonds*).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office

of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) above and annotation of such payment on the Register and the relevant Bond Certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named of joint holders) on the fifteenth day before the due date for payment thereof (the '**Record Date**'). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in (a) the principal financial centre of the country of the currency concerned, provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in (a) the principal financial centre of the country of that currency provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro.

A record of each payment so made will be endorsed on the schedule to the Global Bond or the Global Bond Certificate by or on behalf of the Principal Paying Agent or the Registrar, as the case may be, which endorsement shall be *prima facie* evidence that such payment has been made.

(c) *Payments in the United States of America*

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

- (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;
- (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and
- (iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(a) *Payments subject to fiscal laws; payments on Global Bonds and Registered Bonds*

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10 (*Taxation*)) any law implementing an intergovernmental approach thereto. 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.

(b) *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); and (iv) 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*).

(c) *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.

(d) *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 the relevant place of presentation 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.

(e) *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 Euronext Dublin), 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 66<sup>2</sup>/<sub>3</sub> 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, Receipholders 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 Euronext Dublin 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 the Bond Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee shall, if requested by the Issuer, 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 Euronext Dublin, 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 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 depository or a common depository 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.

If a Permanent Global Bond is exchangeable for Definitive Bonds at the option of the Bondholders or Issuer other than in the limited circumstances described in the Permanent Global Bond, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination).

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 Bonds while in Global Form”.

### **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 depository for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

### **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.

If a Global Bond Certificate is exchangeable for Individual Bond Certificates at the option of the Bondholders or Issuer other than in the limited circumstances described in the Global Bond Certificate, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination).

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

**[IMPORTANT – EEA RETAIL INVESTORS]** –The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU as amended (“**MiFID II**”)/ MiFID II]; (ii) a customer within the meaning of Directive 2002/92/EC as amended or superseded (the “**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive (as defined below). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIPs Regulation**”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

**[MiFID II product governance / Professional investors and ECPs only target market]** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in point (11) of Article 4(1) of [Directive 2014/65/EU as amended (“**MiFID II**”)/MiFID II]; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. *[Consider any negative target market.]*<sup>4</sup>Any person subsequently offering, selling or recommending the Bonds (a “**distributor**”) should take into consideration the manufacturer[’s/s] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer[’s/s] target market assessment) and determining appropriate distribution channels.]

Final Terms dated [●]

### THAMES WATER UTILITIES FINANCE PLC

LEI [●]

Issue of [Sub-Class [[●]] [Aggregate Nominal Amount of Sub-Class]

[Title of Bonds]

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 9 October 2018 [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 for a period of 12 months from the date of such publication at: <http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx> and the website of Irish Stock Exchange plc, trading as Euronext Dublin (“**Euronext Dublin**”) 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 [●] [and the supplemental prospectus dated [●] and incorporated by reference into the base prospectus dated 9 October 2018]. 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 9 October 2018 [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 9 October 2018 [and the supplemental prospectuses dated [●] and [●]]. [The base prospectuses [and the supplemental prospectuses] are available on the website of the Central Bank of Ireland for a period of 12 months from the date of such publication at: <http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx> and the website of Euronext Dublin at <http://www.ise.ie/>.]

1	(i) Issuer:	Thames Water Utilities Finance plc
	(ii) Guarantors:	Thames Water Utilities Holdings Limited and Thames Water Utilities 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:	[●]
		[€00,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Bonds in definitive form will be issued with a denomination above [€99,000].]
	(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:	[Applicable] / [Not Applicable] [Issuer Call Option] [Issuer Maturity Call]
13	(i) Status:	Class [A / B] Unwrapped Bonds
	(ii) [Date [Board] approval for issuance of Bonds [and Guarantee] obtained:	[●] [and [●], respectively]]

#### **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:	[●]
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/CPI/CPIH]
	(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):	[●]

## PROVISIONS RELATING TO REDEMPTION

19	Issuer Maturity Call	[Applicable in accordance with Condition 8(j)/Not Applicable]
	(i) Issuer Maturity Call Period	The period commencing on (and including) the day that is [●] days prior to the Maturity Date to (and excluding) the Maturity Date.
20	Call Option:	[Applicable in accordance with Condition 8(b)/Not Applicable]
	(i) Optional Redemption Date(s):	Any Interest Payment Date prior to the first day of the Issuer Maturity Call Period [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]/As set out in the Conditions/[●]
21	Final Redemption Amount:	[●] per Calculation Amount

## GENERAL PROVISIONS APPLICABLE TO THE BONDS

22	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]
23	Relevant Financial Centre(s):	[Not Applicable/[●]]
24	Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature):	[Yes/No.]
25	Details relating to Instalment Bonds:	[Not Applicable/Applicable]



	(i) Instalment Date:	[●]
	(ii) Instalment Amount:	[●]
26	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions in Condition 19 apply]

27	TEFRA rules:	[TEFRA C/TEFRA D/Not Applicable]
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#### ISSUER/TWUL LOAN TERMS

28	Amount of relevant Term Advance/Index Linked Advances:	[●]
29	Interest rate on relevant Term Advance/Index Linked Advances:	[●]
30	Term of relevant Term Advance/Index Linked Advances:	[●]

#### DISTRIBUTION

Method of distribution		[Syndicated/Non-syndicated]
31	(i) If syndicated, names of Managers:	[Not Applicable/[●]]
	(ii) Stabilising Manager (if any):	[Not Applicable/[●]]
32	If non-syndicated, name of Dealer:	[Not Applicable/[●]]
33	U.S. Selling Restrictions:	[Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable]
34	Prohibition of Sales to EEA Retail Investors:	[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

## PART B OTHER INFORMATION

- 1 **Listing**
  - (i) Listing: Listed on the Official List of Euronext Dublin
  - (ii) Admission to trading: Application has been made for the Bonds to be admitted to trading on the Main Securities Market of Euronext Dublin.
  - (iii) Estimate of total expenses related to admission to trading: [●]
- 2 **Ratings**

Ratings: The Bonds to be issued have been rated:  
[S&P Global Ratings Europe Limited: [●]]  
[Moody's Investors Service Limited: [●]]
- 3 **[Interests of Natural and Legal Persons involved in the [Issue/Offer]]**

[●]
- 4 **Reasons for the offer, estimated net proceeds and total expenses**
  - (i) [Reasons for the offer: [●]]

*[If applicable in the applicable Final Terms, the following language shall be included].*

[Net proceeds from the issue of a Series of Bonds (the **'Green Bonds'**) to a green portfolio (the **'Green Portfolio'**) in order to finance, refinance and/or invest in Eligible Green Portfolio (as defined below) meeting the Eligibility Criteria (as defined below).

**"Eligible Green Projects"** means sustainable water management projects with a reduced climate footprint and water recycling projects with a reduced climate footprint.

**"Eligible Green Portfolio"** means a portfolio of Eligible Green Projects.

**"Eligibility Criteria"** means the criteria prepared by the Issuer and/or TWUL. A third party consultant will review the Eligible Green Portfolio

and issue a Green Portfolio Opinion based on the Eligibility Criteria. The Green Portfolio Opinion will be made available on the Issuer's website at [www.thameswater.co.uk](http://www.thameswater.co.uk).

Pending allocation of the net proceeds for investment in the Eligible Green Portfolio, the Issuer and/or TWUL will hold such net proceeds in an Operating Account, at its discretion, in the form of cash or other investments (as permitted under the Common Terms Agreement). The balance of the Eligible Green Portfolio, until such amount is used in full, will be periodically adjusted to match allocations to Eligible Green Projects. The Issuer and/or TWUL will establish systems to monitor and account for the net proceeds for investment in the Eligible Green Portfolio meeting the Eligibility Criteria.

The Issuer is expected to issue a report on (i) the portfolio to which proceeds of Green Bonds have been allocated and the amounts allocated and (ii) the expected impact of the Eligible Green Portfolio on the environment. This report will be issued once a year until all Green Bonds are repaid in full or until the maturity date of those Green Bonds. The report will be reviewed by a third party consultant or with limited assurance by an independent auditor. In addition, the Issuer is expected to provide regular information through its website [www.thameswater.co.uk](http://www.thameswater.co.uk) on the environmental outcomes of the Eligible Green Portfolio.]

(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	<b>[Index-Linked or other variable-linked Bonds only – Performance of Index/Formula/Other Variable and Other Information Concerning the Underlying</b>	
	(i) Name of underlying index:	[UK Retail Price Index (RPI) / Harmonised Index of Consumer Prices (HICP) / UK Consumer Prices Index (CPI) / UK Consumer Prices Index including Owner Occupiers' Housing costs and Council Tax (CPIH)]
	(ii) Information about the Index, its volatility and past and future performance can be obtained from:	More information on [RPI / HICP / CPI / CPIH / comparable index which may replace RPI / HICP / CPI / CPIH] including past and current performance and its volatility and fall back provisions in the event of a disruption in the publication of [RPI / HICP / CPI / CPIH], can be found at [ <a href="http://www.statistics.gov.uk">http://www.statistics.gov.uk</a> / <a href="http://www.aft.gouv.fr">www.aft.gouv.fr</a> relevant replacing website]
8	<b>[Dual currency Bonds only – Performance of Rate[s] of Exchange</b>	
	<b>[●]</b>	
9	<b>Operational information</b>	
	ISIN:	[●]
	Common Code:	[●]
	[CFI:	[Not Applicable/[●]]
	[FISN:	[Not Applicable/[●]]
	Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. 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):	[●]
10	<b>Green Bonds</b>	[Applicable]/[Not Applicable]

## CHAPTER 9

### USE OF PROCEEDS

The net proceeds from each issue of Bonds 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. See Chapter 4, "*Overview of the Financing Group*".

If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms. An example of such particular identified use of proceeds may be, if so designated in the relevant Final Terms, the allocation of net proceeds from the issue of a Series of Bonds (the "**Green Bonds**") to the financing, refinancing and/or investment in the Eligible Green Portfolio (as defined below) meeting the Eligibility Criteria (as defined below) or other portfolio with environmental benefits which meet certain defined criteria as set out in the applicable Final Terms. The Final Terms will specify whether or not the Bonds under an issuance will be Green Bonds.

**"Eligible Green Projects"** means sustainable water management projects with a reduced climate footprint and water recycling projects with a reduced climate footprint.

**"Eligible Green Portfolio"** means a portfolio of Eligible Green Projects.

**"Eligibility Criteria"** means the criteria prepared by the Issuer and/or TWUL. A third party consultant will review the Eligible Green Portfolio and issue a Green Portfolio Opinion based on the Eligibility Criteria. The Green Portfolio Opinion will be made available on the Issuer's website at [www.thameswater.co.uk](http://www.thameswater.co.uk).

Pending allocation of the net proceeds for investment in the Eligible Green Portfolio, the Issuer and/or TWUL will hold such net proceeds in an Operating Account, at its discretion, in the form of cash or other investments (as permitted under the Common Terms Agreement). The balance of the Eligible Green Portfolio, until such amount is used in full, will be periodically adjusted to match allocations to Eligible Green Projects. The Issuer and/or TWUL will establish systems to monitor and account for the net proceeds for investment in the Eligible Green Portfolio meeting the Eligibility Criteria.

The Issuer is expected to issue a report on (i) the portfolio to which proceeds of Green Bonds have been allocated and the amounts allocated and (ii) the expected impact of the Eligible Green Portfolio on the environment. This report will be issued once a year until all Green Bonds are repaid in full or until the maturity date of those Green Bonds. The report will be reviewed by a third party consultant or with limited assurance by an independent auditor. In addition, the Issuer is expected to provide regular information through its website [www.thameswater.co.uk](http://www.thameswater.co.uk) on the environmental outcomes of the Eligible Green Portfolio.

## 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 (including redeeming) 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 Issuer intends that the Bonds will be listed on the Official List of Euronext Dublin and admitted to trading on the Main Securities Market. Although HM Revenue & Customs' published practice only states that the "Main market" of "The Irish Stock Exchange" is a "recognised stock exchange" for the purposes of Section 1005 Income Tax Act 2007 (and does not refer to either the "Main Securities Market" or "Euronext Dublin"), the Issuer understands that HM Revenue & Customs treats the "Main Securities Market" of "Euronext Dublin" as a "recognised stock exchange" for these purposes. Accordingly, provided that HM Revenue & Customs continues to treat the "Main Securities Market" of "Euronext Dublin" as a "recognised stock exchange" the Bonds should be treated as listed on a "recognised stock exchange" if they are both admitted to trading on the Main Securities Market of Euronext Dublin and 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.

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

**The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Financial Guarantee in respect of interest on the Bonds (or other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemption from withholding on account of United Kingdom tax in respect of securities listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor makes any such payments and they have a United**

**Kingdom source, these may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent. 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.

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 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**

#### **Foreign Account Tax Compliance Act (“FATCA”)**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the UK) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes.

Certain aspects of the application of FATCA and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply to foreign passthru payments prior to 1 January 2019 and Bonds that have a fixed term and that are not treated as equity for U.S. federal income tax purposes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional bonds (as described in Condition 1 (*Form, Denomination and Title*)) that are not distinguishable from previously issued Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all such bonds, including Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person will be required to pay additional amounts as a result of the withholding.

## CHAPTER 11

### DESCRIPTION OF THE HEDGE COUNTERPARTIES

The information contained herein with respect to the Hedge Counterparties relates to and has been obtained from each Hedge Counterparty, respectively. Delivery of this Prospectus shall not create any implication that there has been no change in the affairs of a Hedge Counterparty since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

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”**), and together with its subsidiary undertakings, the **“Bank Group”**) is a public limited company registered in England and Wales. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). The Bank 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, the Bank was re-registered as a public limited company and its name was changed from ‘Barclays Bank International Limited’ to ‘Barclays Bank PLC’. The whole of the issued ordinary share capital of the Bank is beneficially owned by Barclays PLC. Barclays PLC (together with its subsidiary undertakings, the Group) is the ultimate holding company of the Group.

The Group is a transatlantic consumer and wholesale bank offering products and services across personal, corporate and investment banking, credit cards and wealth management, with a strong presence in the Group’s two home markets of the UK and the US. The Group is focused on two core divisions – Barclays UK and Barclays International.

Based on the Bank Group's audited financial information for the year ended 31 December 2017, the Bank Group had total assets of £1,129,343m (2016: £1,213,955m). The profit before tax of the Bank Group for the year ended 31 December 2017 was £3,166m (2016: £4,383m) after credit impairment charges and other provisions of £2,336m (2016: £2,373m). The financial information in this paragraph is extracted from the audited consolidated financial statements of the Bank for the year ended 31 December 2017.

#### **BNP Paribas**

BNP Paribas is a French multinational bank and financial services company with its registered office located at 16 boulevard des Italiens 75009 Paris, France, and its corporate website in English is <http://www.bnpparibas.com/en>.

BNP Paribas, together with its consolidated subsidiaries (the **“BNP Paribas Group”**) is a global financial services provider, conducting retail, corporate and investment banking, private banking, asset management, insurance and specialized and other financial activities throughout the world.

The BNP Paribas Group, one of Europe’s leading providers of banking and financial services, has four domestic retail banking markets in Europe, namely in Belgium, France, Italy and Luxembourg.

It operates in 74 countries and has more than 198,000 employees, including more than 150,000 in Europe. BNP Paribas holds key positions in its two main businesses:

- Retail Banking and Services, which includes:
  - Domestic Markets, comprising:

- i. French Retail Banking (FRB),
  - ii. BNL banca commerciale (BNL bc), Italian retail banking,
  - iii. Belgian Retail Banking (BRB),
  - iv. Other Domestic Markets activities including Luxembourg Retail Banking (LRB);
- International Financial Services, comprising:
  - i. Europe-Mediterranean,
  - ii. BancWest,
  - iii. Personal Finance,
  - iv. Insurance,
  - v. Wealth and Asset Management;
- Corporate and Institutional Banking (CIB):
  - i. Corporate Banking,
  - ii. Global Markets,
  - iii. Securities Services.

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

At 30 June 2018, the BNP Paribas Group had consolidated assets of €2,234.5 billion (compared to €1,952.2 billion at 31 December 2017), consolidated loans and receivables due from customers of €747.8 billion (compared to €735 billion at 31 December 2017), consolidated items due to customers of €783.9 billion (compared to €760.9 billion at 31 December 2017) and shareholders' equity (Group share) of €98.7 billion (compared to €102 billion at 31 December 2017).

At 30 June 2018, pre-tax income was €5.7 billion (compared to €6.2 billion at the end of June 2017). Net income, attributable to equity holders, for the first half of the year 2018 was €3.9 billion (compared to €4.3 billion for the first half of the year 2017).

At the date of this Prospectus, the BNP Paribas Group currently has long-term senior debt ratings of "A" with positive outlook from S&P, "Aa3" with stable outlook from Moody's Investors Service, Inc. and "AA (low)" with stable outlook from DBRS and a long-term issuer default rating of "A+" with stable outlook from Fitch Ratings, Ltd.

The information contained in this section relates to and has been obtained from BNP Paribas. The information concerning BNP Paribas and the BNP Paribas Group contained herein is furnished solely to provide limited introductory information regarding BNP Paribas and the BNP Paribas Group and does not purport to be comprehensive.

The delivery of the information contained in this section shall not create any implication that there has been no change in the affairs of BNP Paribas or the BNP Paribas Group since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

For up-to-date financial information, including quarterly results since the last fiscal year end, please refer to <http://invest.bnpparibas.com/en>.

### **Commonwealth Bank of Australia (ABN 48 123 123 124)**

Commonwealth Bank of Australia (ABN 48 123 123 124) (referred to in this section as “CBA”) is a public company with a market capitalisation of A\$132,094 billion as at 4 October 2017. 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 2017, CBA and its consolidated subsidiaries had total assets of A\$976,374 million and international harmonised CET1 ratio of 15.6 per cent. Net profit after income tax (statutory basis), for the year ended 30 June 2017 was A\$9,881 million.

As at the date of this Prospectus, CBA has been rated AA- by S&P, Aa3 by Moody's and AA- by Fitch. CBA and its subsidiaries, with a full-time equivalent staff of over 51,000 at 30 June 2017, provides a comprehensive range of banking, financial 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 2017 (issued 29 September 2017) (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 March 2017, Deutsche Bank's subscribed capital amounted to €3,530,939,215.36 consisting of 1,379,273,131 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 authorities: European Central Bank and the BaFin, Germany's Federal Financial Supervisory Authority) and, in the United Kingdom, by the Prudential Regulation Authority. It is subject to supervision by the European Central Bank and by the 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. It is registered in the Commercial Register of the District Court, 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.

### **HSBC Bank plc**

HSBC Bank plc and its subsidiaries form a group providing a range of banking products and 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 around 3,800 offices in 66 countries and territories in Europe, Asia, Middle East and North Africa, North America and Latin America. The HSBC Group's total assets at 30 June 2018 were U.S.\$2,607 billion. HSBC Bank plc is one of the HSBC Group's principal operating subsidiary undertakings 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 Aa3 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.

### **J.P. Morgan Securities plc**

J.P. Morgan Securities plc is a principal subsidiary of JPMorgan Chase & Co. in the United Kingdom and the European Economic Area. J.P. Morgan Securities plc engages in international investment banking activity, including activity across Markets, Investor Services and Banking lines of business. Within these lines of business, its activities include underwriting government and corporate bonds, equities and other securities; arranging private placements of debt and convertible securities; trading in debt securities, equity securities, commodities, swaps and other derivatives; providing brokerage and clearing services for exchange traded futures and options contracts; lending related activities and providing investment banking advisory services. J.P. Morgan Securities plc has branches in Frankfurt, Paris, Milan, Madrid, Stockholm and Zurich and is a member of more than twenty exchanges and various clearing houses, including, among others, LCH Clearnet Limited, LME Clear, Eurex Clearing AG and ICE Clear Europe.

J.P. Morgan Securities plc is incorporated in England and Wales, with its registered office at 25 Bank Street, Canary Wharf, London E14 5JP.

J.P. Morgan Securities plc does not have securities admitted to trading on a regulated market or an equivalent market.

### **Lloyds Bank Corporate Markets plc**

Lloyds Bank Corporate Markets plc ("**Lloyds Bank Corporate Markets**") is a wholly owned subsidiary of Lloyds Banking Group plc (together with its subsidiary undertakings from time to time, "**Lloyds Banking Group**"), was incorporated under the laws of England and Wales on 28 September 2016 (registration number 10399850) and is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the Financial Conduct Authority and the PRA. Lloyds Bank Corporate Markets's registered office is at 25 Gresham Street, London EC2V 7HN, United Kingdom.

Lloyds Bank Corporate Markets was created in response to the Financial Services (Banking Reform) Act 2013, which takes effect from 1 January 2019 and requires the separation of certain commercial banking activities and international operations from the rest of the Lloyds Banking Group.

Lloyds Bank Corporate Markets and its subsidiaries provides deposit taking, lending and transaction banking products and services to customers (both new and existing) and is also responsible for the provision of certain wholesale banking products and services (including loan markets, bonds and asset securitisation and elements of

foreign exchange, commodities and rate management). Lloyds Bank Corporate Markets has a client-led strategy, focused on UK based clients and international clients with a link to the UK.

Additional information on Lloyds Bank Corporate Markets, and Lloyds Banking Group's approach to ring-fencing, is available from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN or from the following internet website address: <http://www.lloydsbankinggroup.com>. The information on this website does not form part of this Prospectus.

### **Morgan Stanley & Co. International plc**

Morgan Stanley & Co. International plc is an indirect wholly-owned subsidiary of Morgan Stanley and a registered U.K. broker-dealer. It was incorporated in England in 1986 and its registered address is 25 Cabot Square, Canary Wharf, London, E14 4QA. Its principal activity is the provision of financial services to corporations, governments, financial institutions and individual investors. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the PRA in the United Kingdom.

### **MUFG Securities EMEA plc**

MUFG Securities EMEA plc (**"MUS(EMEA)"**) 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 commenced business on 3 October, 1983. MUS(EMEA) was re-registered as a public limited company on 3 August, 1989. MUS(EMEA)'s registered office is located at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AJ, and its telephone number is 44 20-7628-5555. MUS(EMEA)'s registration number is 01698498. MUS(EMEA) is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK.

Mitsubishi UFJ Securities Holdings Co., Ltd. (**"MUSHD"**), owns 100 per cent. of the shares in MUS(EMEA). Each of MUSHD and The Bank of Tokyo- Mitsubishi UFJ, Ltd. (**"BTMU"**) is a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. (**"MUFG"**).

MUS(EMEA) 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. MUS(EMEA) 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.

MUS(EMEA) continues to promote and develop its international capital markets business, dealing in its main areas of activity: debt and equity securities, derivatives and structured products.

### **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). The majority of NAB's financial services businesses operate in Australia and New Zealand with branches located in 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 Capital Markets, a Dealer and hedge counterparty.

Royal Bank is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. Our success comes from the 84,000+ employees who bring our vision, values and strategy to life so we can help our clients thrive and communities prosper. As Canada’s biggest bank, and one of the largest in the world based on market capitalization, we have a diversified business model with a focus on innovation and providing exceptional experiences to our 16 million clients in Canada, the U.S. and 34 other countries.

Royal Bank had, on a consolidated basis, as at July 31, 2018, total assets of C\$1,292.4 billion (approximately US \$993.8 billion\*), equity attributable to shareholders of C\$77.8 billion (approximately US\$59.8 billion\*) and total deposits of C\$832.3 billion (approximately US\$640.0 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 its quarterly Report to Shareholders for the fiscal period ended July 31, 2018.

The senior long-term unsecured debt of Royal Bank has been assigned ratings of AA (stable outlook) by S&P Global Ratings, Aa2 (stable 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.

On written request, and without charge, Royal Bank will provide a copy of its most recent publicly filed Annual Report on Form 40-F, which includes audited Consolidated Financial Statements, to any person to whom this statement is delivered. Requests for such copies should be directed to Investor Relations, Royal Bank of Canada, by writing to 155 Wellington Street West, Toronto, Ontario, M5W 3K7, Canada, or by calling (416) 955-7802, or by visiting [rbc.com/investorrelations](http://rbc.com/investorrelations)\*\*.

The delivery of this statement does not imply that there has been no change in the affairs of Royal Bank since the date hereof or that the information contained or referred to herein is correct as at any time subsequent to its date.

## Société Générale

Société Générale is a French limited liability company (société anonyme) having the status of a bank and is registered in France in the Commercial Register under number 552 120 222. It has its registered office at 29 Boulevard Haussmann 75009 Paris (France) and its administrative office at Tours Société Générale, 17 Cours Valmy, 92972 Paris La Defense (France). Société Générale was incorporated by deed approved by the decree of 4 May 1864. As of 11 December 2017, Société Générale has a share capital of EUR 1,009,897,173.75 divided into 807,917,739 shares, each with a nominal value of EUR 1.25. Société Générale is a licensed French credit institution supervised by the Autorité de Contrôle Prudentiel et de Résolution, (“**ACPR**”: 4, place de Budapest CS 92459 75436 Paris Cedex 09), controlled by the Autorité des Marchés Financiers (“**AMF**”) and under the prudential supervision of the European Central Bank (ECB). In accordance to the provision of French Code Monétaire et Financier (Monetary and Financial Code), Société Générale, as a credit institution licensed for the provision of investment services, is authorized to carry out all banking operations and provide all investment services except for the investment service of the operation of a multilateral trading facility (“**MTF**”) or an organized trading facility (“**OTF**”). The London Branch of Société

Générale has its principal office at SG House, 41 Tower Hill, London EC3N 4SG and is registered with UK Companies House under number BR000021.

Société Générale is one of the leading European financial services groups. Based on a diversified and integrated banking model, the Group combines financial strength and proven expertise in innovation with a strategy of sustainable growth, aiming to be the trusted partner for its clients, committed to the positive transformations of society and the economy.

Active in the real economy for over 150 years, with a solid position in Europe and connected to the rest of the world, Société Générale has over 147,000 members of staff in 67 countries and supports on a daily basis 31 million individual clients, businesses and institutional investors (excluding insurance policyholders) around the world by offering a wide range of advisory services and tailored financial solutions. The Group is built on three complementary core businesses:

- French Retail Banking, which encompasses the Société Générale, Crédit du Nord and Boursorama brands. Each offers a full range of financial services with omnichannel products at the cutting edge of digital innovation;
- International Retail Banking, Insurance and Financial Services to Corporates, with networks in Africa, Russia, Central and Eastern Europe and specialised businesses that are leaders in their markets;
- Global Banking and Investor Solutions, which offers recognised expertise, key international locations and integrated solutions.

### **Sumitomo Mitsui Banking Corporation (“SMBC”)**

SMBC is a joint stock company incorporated with limited liability under the laws of Japan. SMBC is the main banking subsidiary of Sumitomo Mitsui Financial Group and is one of the world’s largest commercial banks, with ¥1831 trillion in consolidated total assets as of 31 March 2018 and provides an extensive range of corporate and consumer banking services in Japan and wholesale banking services overseas. In Japan, it has solid franchises in both corporate and consumer banking. SMBC has long-standing and close business relationships with many companies listed on the First Section of the Tokyo Stock Exchange and long historical relationships with Sumitomo Group and Mitsui Group companies. SMBC had approximately 27 million consumer banking customer deposit accounts and approximately 80,000 domestic corporate borrower customers on a nonconsolidated basis as of March 31, 2018. The registered head office of SMBC is located at 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan.

SMBC Nikko Capital Markets Limited is a subsidiary of SMBC.

### **The Bank of Nova Scotia**

The Bank of Nova Scotia was granted a charter under the laws of the Province of Nova Scotia in 1832 and commenced operations in Halifax, Nova Scotia in that year. Since 1871, The Bank of Nova Scotia has been a chartered bank under the Bank Act (Canada) (the “**Bank Act**”). The Bank of Nova Scotia is a Schedule 1 bank under the Bank Act and the Bank Act is its charter. The head office of The Bank of Nova Scotia is located at 1709 Hollis Street, Halifax, Nova Scotia, B3J 3B7 and its executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1. A copy of The Bank of Nova Scotia's by-laws is available on [www.sedar.com](http://www.sedar.com).

The Bank of Nova Scotia is Canada’s international bank and a leading financial services provider in North America, Latin America, the Caribbean and Central America, and Asia-Pacific. The Bank of Nova Scotia is dedicated to helping its 24 million customers become better off through a broad range of advice, products and services, including personal and commercial banking, wealth management and private banking, corporate and investment banking, and



capital markets. With a team of more than 88,000 employees and assets of \$915 billion (as at October 31, 2017), The Bank of Nova Scotia trades on the Toronto (TSX: BNS) and New York Exchanges (NYSE: BNS).

Information on The Bank of Nova Scotia's business lines is available in the Management's Discussion and Analysis for the year ended 31 October 2017, on pages 30 to 41 inclusive of The Bank of Nova Scotia's Annual Report for the year ended 31 October 2017.

## CHAPTER 12

### SUBSCRIPTION AND SALE

#### Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Commonwealth Bank of Australia (ABN 48 123 123 124), HSBC Bank plc, Lloyds Bank Corporate Markets plc, J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, National Australia Bank Limited (ABN 12 004 044 937), NatWest Markets Plc, RBC Europe Limited, Scotiabank Europe plc, SMBC Nikko Capital Markets Limited, Société Générale 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 Arranger 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 and U.S. Treasury 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 (as may be applicable) 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,

provided that no such offer of Bonds referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

## Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Bonds specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression “offer” includes 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.

## 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 or the Guarantors; 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.

## General

Each Dealer has acknowledged that, save for obtaining the approval of the Prospectus by the Central Bank of Ireland in accordance with the Irish Prospectus Regulations 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 update of the Programme and the issue of Bonds thereunder, has been duly authorised by resolutions of the Board of Directors of the Issuer dated 22 August 2018.

The giving of the guarantees contemplated by the Security Agreement by each of TWUL and TWH was duly authorised by a resolution of the Board of Directors of each of TWUL and TWH, respectively, on 23 August 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 9 October 2018.

#### **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 2017 and the year ended 31 March 2018;
- (c) the audited financial statements for the Issuer for the year ended 31 March 2017 and the year ended 31 March 2018;
- (d) the audited financial statements for TWH for the year ended 31 March 2017 and the year ended 31 March 2018;
- (e) 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, the base prospectus dated 11 March 2014, the base prospectus dated 26 June 2015, the supplementary prospectus dated 7 September 2015, the base prospectus dated 16 September 2016 and the base prospectus dated 10 October 2017 in respect of the Programme;
- (f) a copy of this Prospectus;
- (g) 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.;
- (h) each Investors' Report;
- (i) the Security Agreement;

- (j) each Financial Guarantee and all related Endorsements relating to each Sub-Class of Wrapped Bonds issued under the Programme;
- (k) each G&R Deed; and
- (l) 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, ISIN, FISN and CFI 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 or TWH since 31 March 2018. There has been no material adverse change in the financial position or prospects of each of the Issuer, TWUL or TWH since 31 March 2018.

### **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.



## **Availability of Financial Statements**

The audited annual financial statements of the Issuer and the audited annual financial statements of TWUL, the Issuer and TWH will be prepared as of 31 March in each year. TWH has not published nor intends to publish any interim financial statements, but each of TWUL and the Issuer has published unaudited interim financial statements as of 30 September 2011, 30 September 2012, 30 September 2013, 30 September 2014, 30 September 2015, 30 September 2016 and 30 September 2017 (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 the Issuer only, any published interim financial statements) of each of the Issuer, TWUL and TWH will be available free of charge in accordance with “Documents Available” above.

## **Auditors**

The Auditors of TWUL, TWH and the Issuer for the financial year ended 31 March 2018 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 the Issuer, TWUL and TWH 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 each of TWUL and the Issuer for the year ended 31 March 2017 and 31 March 2018 have been prepared in accordance with international financial reporting standards (EU-IFRS) as adopted by the EU and IFRIC interpretations as they apply to the financial statements of TWUL and the Issuer respectively and the accounts of TWH for the year ended 31 March 2017 and 31 March 2018 have been prepared in accordance with FRS 101 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 the Issuer, TWUL and TWH for the year ending 31 March 2013, 31 March 2014, 31 March 2015, 31 March 2016, 31 March 2017 and 31 March 2018 have been delivered to the Registrar of Companies. The accounts of each of the Issuer, TWUL and TWH 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 report incorporated by reference in this Prospectus. For the purposes of Prospectus Rule 5.5.4R (2)(f), KPMG LLP has authorised the contents of its auditor’s report referred to above as part of this Prospectus, has stated that it is responsible for that report and has declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Following a competitive tender process, the ARRC recommended to the Board that PwC, Registered Auditors and Chartered Accountants (a member of the Institute of Chartered Accountants in England and Wales with the registered auditor number: C001004062) of 1 Embankment Place, London, WC2N 6RH, succeed KPMG as auditor following completion of the audit for 31 March 2018.

## **Bond Trustee’s reliance on reports and legal opinions**

Certain of the reports of 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 Euronext Dublin.

**Dealers Transacting with the Issuer and Guarantors**

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, the Guarantors and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer, the Guarantors and their 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 their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer and/or the Guarantors routinely hedge their credit exposure to the Issuer and/or the Guarantors 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 notes issued under the Programme. Any such positions could adversely affect future trading prices of notes 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.

## **CHAPTER 14**

### **FINANCIAL INFORMATION**

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# Thames Water Utilities Holdings Limited

Annual report and financial statements  
For the year ended 31 March 2018



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## **Directors and advisors**

### **Directors**

K Bradbury - Chairman  
S Deeley  
J Divoky  
A Hall  
G Lambert  
P Noble  
G Pestrak  
G Tucker  
Y Wang

### **Registered auditor**

KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

### **Company Secretary and registered office**

D J 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 2018.

### Business review

The principal activity of the Company, being an intermediate holding company within the Kemble Water Holdings Limited group of companies ("the Group"), remains unchanged from the previous year. The Group's principal activity is the appointed supply of water and wastewater services to customers in the London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL") in accordance with TWUL's licence of appointment.

The Company is the immediate parent company of TWUL, and is also part of a securitisation group of companies ("the Securitisation Group"). This arrangement comprises the Company and the following wholly owned direct and indirect subsidiaries:

- Thames Water Utilities Limited (direct subsidiary);
- Thames Water Utilities Finance Limited (indirect subsidiary);
- Thames Water Utilities Cayman Finance Holdings Limited (indirect subsidiary); and
- Thames Water Utilities Cayman Finance Limited (indirect subsidiary).

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. The guaranteed debt as at 31 March 2018 was £11.2 billion (2017: £10.6 billion). A Corporate Family Rating ("CFR") is assigned by Moody's and reflects the consolidated rating of the different classes of outstanding external debt obligations issued by the companies within the Securitisation Group. In October 2017 this rating was reaffirmed by Moody's as investment grade BAA1 with stable outlook. Consequently the Directors do not consider that it is probable that a payment will be required under this guarantee and no provision relating to this has been made in the financial statements.

In addition to its role as an intermediate holding company, the Company has loans with other companies within the Group, on which interest has been charged at pre-agreed rates. Cash received in the year of £32.6 million from subsidiaries was used to settle interest accrued on the £1,974.8 million loan to TWUL (2017: £1,974.8 million) and partially pay group relief of £20.7 million. The Company continues to make its tax losses available to other companies within the Group and as at 31 March 2018 the total amount owing from group companies in respect of group relief was £119.3 million (2017: £107.3 million).

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. In the year to 31 March 2018 the total dividend received of £55.0 million (2017: £157.0 million) from TWUL was used to fund an interest payment to Thames Water Limited ("TWL") charged in the year on the £1,980.1 million loan which expires in 2056.

The Directors have determined that the result before tax and the net assets or liabilities are the most appropriate key performance indicators for an understanding of the development, performance and position of the Company. For the year ended 31 March 2018 the Company made a loss before tax of £159.6 million (2017: £59.7 million), which is primarily as a result of the intercompany interest expense exceeding income from other Group companies, which was higher in the previous year. The Directors have reviewed the carrying value of the investment in TWUL and have concluded that the reduced dividend received in the year is not indicative of a long term decline in recoverable value. Consequently no impairment losses (2017: none) arising from this loss have been recognised. As at 31 March 2018, the Company had net liabilities of £109.1 million (2017: net assets of £17.8 million), driven primarily by interest accrued on the loan payable to TWL which was partially offset by the dividend received. This is in line with expectations, and the Directors have no concerns regarding the performance or position of the Company.

## Strategic report (continued)

### Principal risks and uncertainties

The Company's operations specifically expose it to a variety of financial risks that include credit and liquidity risk as follows:

(i) 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 intercompany receivable balances. Credit control policies and procedures are in place to minimise the risk of bad debt arising from the intercompany receivables including, where appropriate, a review of the credit ratings of counterparty intercompany entities and any letters of support they may receive from the Group.

(ii) 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 has received a letter of support from the ultimate parent company confirming that it will provide support as necessary to enable it to meet its liabilities as they fall due for a period of 12 months from the signing of these financial statements. The Directors are satisfied to place reliance on this support based on a review of the Group's budget and business plan, as well as consideration given that all borrowings are to other intercompany entities.

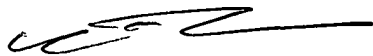
The Group's treasury operations are managed centrally by a specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors of the Company's ultimate parent company, Kemble Water Holdings Limited. The operation of the treasury function is governed by 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 policies and procedures are incorporated within the financial control procedures of the Group.

From the perspective of the Company all other risks and uncertainties not disclosed above, including those pertaining to its investment in TWUL, are integrated with the principal risks of the Group and are not managed separately. The principal risks of the Group are disclosed in the financial statements of the ultimate controlling parent Kemble Water Holdings Limited. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company not disclosed above, 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 13.

### 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 28 June 2018 and signed on its behalf by



**Kenton Bradbury**  
Chairman

Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB



## Directors' report

The Directors present their annual report and the audited financial statements of Thames Water Utilities Holdings Limited for the year ended 31 March 2018. The Directors consider that the annual report and 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 number of the Company is 06195202 (England & Wales).

### Directors

The Directors who held office during the year ended 31 March 2018 and to the date of this report were:

Sir P Mason KBE – Chairman	(resigned 25 January 2018)
K Bradbury - Chairman	(appointed 31 May 2017)
R Blomfield-Smith	(resigned 15 November 2017)
M Braithwaite	(resigned 31 May 2017)
J Divoky	
S Deeley	(appointed 15 November 2017)
R Greenleaf	(resigned 31 May 2017)
A Hall	(appointed 31 May 2017)
G Lambert	
P Noble	
A Osorio	(resigned 19 December 2017)
G Pestrak	(appointed 3 October 2017)
P Sochocki	(appointed 31 May 2017, resigned 3 October 2017)
G Tucker	
C Van Heijningen	(resigned 2 August 2017)
Y Wang	

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 (2017: none).

Directors are allowed to appoint an alternative Director to represent them if they are unable to attend a meeting. The following Directors have formally appointed alternate Directors to represent them when they are unavailable:

Director	Alternate Director
J Divoky	L Webb (resigned 23 January 2018) C Pham (appointed 23 January 2018)
A Hall	M Bloch-Hansen (appointed 20 March 2018)
P Noble	E Lewis
G Tucker	P Mulholland
Y Wang	F Sheng

### Future outlook

The future outlook of the Company is discussed in the Strategic Report.

### Dividends

The Company has paid no dividends during either the current or preceding financial year and the Directors do not recommend the payment of a final dividend (2017: £nil).

### Financial risk management

The Company has access to the Chief Executive and the Executive Team of Thames Water Utilities Limited, who also manage the wider Kemble Water Holdings Group on a day-to-day basis on behalf of the Directors of 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.

## Directors' report (continued)

### Financial risk management (continued)

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report on pages 4 and 5.

### Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Company is in a net current liabilities position at the year end and consequently the Company's ultimate parent, Kemble Water Holdings Limited, has agreed to support the Company for a period of at least 12 months from the date of these financial statements.

The Directors have reviewed the Group's financial forecasts for the forthcoming financial year, considered the Group's compliance with its covenants and the cash, current asset investments and available borrowing facilities available at 31 March 2018 in making their assessment of the Group's going concern.

The Directors believe, after due and careful enquiry, and taking into account the support of the ultimate parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

### Political and charitable donations

No political or charitable donations were made by the Company during the year (2017: £nil).

### 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 they ought to have taken as Director to make themselves 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

KPMG LLP is the Company's auditor at the date of this report. PricewaterhouseCoopers LLP ("PwC") will replace KPMG LLP following the approval of these accounts at which time KPMG LLP will resign. PwC will be appointed by the Directors as auditors for the financial year ending 31 March 2019 onwards, and their appointment is subject to shareholder approval at the next Annual General Meeting.

Approved by the Board of Directors on 28 June 2018 and signed on its behalf by



**Kenton Bradbury**  
Chairman

Clearwater Court  
Vastern Road  
Reading  
Berkshire

## Statement of Directors' responsibilities in respect of the annual report and 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), including FRS 101 *Reduced Disclosure Framework*.

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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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**

## **Opinion**

We have audited the financial statements of Thames Water Utilities Holdings Limited ("the Company") for the year ended 31 March 2018 which comprise the Income statement, the Statement of financial Position, the Statement of changes in equity, accounting policies and related notes.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## **Strategic Report and Directors' Report**

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

## **Directors' responsibilities**

As explained more fully in their statement set out on page 8, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Independent auditor's report to the members of Thames Water Utilities Holdings Limited (continued)**

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.



**Robert Brent (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

28 June 2018

## Income statement

For the year ended 31 March

	Note	2018 £m	2017 £m
Income from shares in group undertakings	3	55.0	157.0
Finance income	4	-	1.1
Finance expense	5	(214.6)	(217.8)
<b>Loss on ordinary activities before taxation</b>		<b>(159.6)</b>	<b>(59.7)</b>
Taxation on loss on ordinary activities	6	32.7	23.4
<b>Loss for the year</b>		<b>(126.9)</b>	<b>(36.3)</b>

All amounts relate to continuing operations.

The Company has no recognised gains or losses other than the items set out above and therefore no separate statement of comprehensive income has been presented.

The accounting policies and notes on pages 14 to 22 are an integral part of these financial statements.

## Statement of financial position

As at 31 March

	Note	2018 £m	2017 £m
<b>Non-current assets</b>			
Investment in subsidiaries	7	4,250.0	4,250.0
<b>Current assets</b>			
Trade and other receivables	8	119.3	107.3
<b>Current liabilities</b>			
Borrowings	9	-	(384.6)
<b>Net current assets/(liabilities)</b>		<b>119.3</b>	<b>(277.3)</b>
<b>Non-current liabilities</b>			
Borrowings	9	(4,478.4)	(3,954.9)
<b>Net (liabilities)/assets</b>		<b>(109.1)</b>	<b>17.8</b>
<b>Equity</b>			
Share capital	10	-	-
Retained earnings		(109.1)	17.8
<b>Total equity</b>		<b>(109.1)</b>	<b>17.8</b>

The accounting policies and notes on pages 14 to 22 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 28 June 2018 and signed on its behalf by:



Kenton Bradbury  
Chairman

Registered number: 06195202 (England & Wales)

## Statement of changes in equity

For the year ended 31 March 2018

	Share capital £m	Retained earnings £m	Total equity £m
<b>At 1 April 2016</b>	-	54.1	54.1
Loss for the year	-	(36.3)	(36.3)
<b>At 31 March 2017</b>	-	17.8	17.8
Loss for the year	-	(126.9)	(126.9)
<b>At 31 March 2018</b>	-	(109.1)	(109.1)

The accounting policies and notes on pages 14 to 22 are an integral part of these financial statements.



## Accounting policies

The following accounting policies have been adopted in the preparation of these financial statements. They have been applied consistently in dealing with items which are considered material, except as noted below:

### General information

Thames Water Utilities Holdings Limited ("the Company") is a company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Company's principal activity is that of an intermediate holding company in the Kemble Water Holdings Limited Group of companies ("the Group"), and remains unchanged from the previous year. The Company is the immediate parent company of Thames Water Utilities Limited ("TWUL"), a regulated provider of water and sewerage services.

### Basis of Preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and on a going concern basis.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the European Union ("EU adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As permitted by FRS 101, the Company has taken advantage of the following exemptions:

- IFRS 7 *Financial instruments: Disclosures*.
- Paragraphs 91 to 99 of IFRS 13 *Fair value measurement* (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1 *Presentation of financial statements* comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1 (reconciliations between the carrying amount at the beginning and end of the period), and
  - 10(d) (statement of cash flows).
- The following paragraphs of IAS 1 *Presentation of financial statements*:
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures).
- IAS 7 *Statement of cash flows*.
- Paragraph 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and errors* (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24 *Related party disclosures* (key management compensation).
- The requirements in IAS 24 *Related party disclosures* to disclose related party transactions entered into between two or more members of a group.

## Accounting policies (continued)

### Basis of Preparation (continued)

The Company's ultimate parent undertaking, Kemble Water Holdings Limited ("KWH") includes the Company in its consolidated financial statements. The address of the registered office of KWH is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. The consolidated financial statements of KWH are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU adopted IFRSs") and are available to the public and may be obtained The Company Secretary's Office at this address.

The Company is exempt by virtue of s400 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, Kemble Water Holdings Limited ("KWH").

KWH has confirmed that it will continue to provide support to Thames Water Utilities Holdings Limited to enable it to meet its liabilities as they fall due for a period of at least twelve months from the date of signing of these financial statements. The Directors of the Company have considered it appropriate to place reliance on this support, based upon a review of the Group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The Directors also took into account potential contingent liabilities and other risk factors in making their assessment.

The Directors believe, after due and careful enquiry, and taking into account the support of the ultimate parent company, that the Company has sufficient financial resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least twelve months from the date of approval of these financial statements. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

### Non-current asset investment in subsidiaries

Investments in subsidiary undertakings are stated at cost, less any provision for impairment. Reviews for impairment are performed annually.

### Non-derivative financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and interest bearing borrowings.

#### *Trade and other receivables*

Trade and other receivables are measured at fair value on initial recognition. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If there is objective evidence that the asset is impaired it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense within operating costs. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect, and is assessed by management on a case-by-case basis.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

## Accounting policies (continued)

### *Interest bearing borrowings*

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### **Impairment of financial assets (including receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each financial 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 and can be measured 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 is reversed through the income statement.

Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Company's historical collection experience.

### **De-recognition of financial instruments**

A financial asset is de-recognised when the rights to receive cash flows from the asset have expired.

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

### **Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### **Dividends**

Dividends unpaid at the financial reporting date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. This occurs when the shareholders right to receive the payment has been established. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Dividend income is recognised when there is a legal right to receive payment.

### **Taxation**

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income.

### **Current income tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

## Accounting policies (continued)

### *Current income tax (continued)*

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

### *Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary difference and deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

### *Deferred tax assets and liabilities*

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### *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.

### *Significant accounting judgements and key sources of estimation uncertainty*

In the process of applying the Company's accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on available information. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date used in preparing these financial statements are as follows:

#### *Impairment of receivables, including intercompany loan receivables*

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors such as credit rating of the receivable, the ageing profile of receivables and historical experience. See note 8 for the net carrying value of the receivables and, where applicable, any associated impairment provision.

#### *Impairment of investments in subsidiaries*

Determining whether the company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value-in-use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. See note 7 for the net carrying value of the investments and associated impairment provision.

## Notes to the financial statements

### 1. Auditor's remuneration

The auditor's remuneration was borne by Thames Water Limited in both the current and preceding financial year. The total amount payable relating to the Company was £3,595 (2017: £3,500). No other fees were payable to KPMG LLP in respect of this Company during the year (2017: £nil).

### 2. Employees and Directors

#### Employees

The company had no employees during the year (2017: none).

The Directors received no remuneration in respect of their services to the Company, as none were qualifying services, in both the current and preceding financial year. There were no retirement benefits accruing in either the current or preceding financial year.

#### Directors

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 (2017: £nil) and there were no retirement benefits accruing in either year.

Aggregate emoluments for the Group are disclosed in the financial statements of the ultimate parent company.

### 3. Income from shares from group undertaking

The income from shares in group undertakings of £55.0 million (2017: £157.0 million) relates wholly to dividends received from the Company's direct subsidiary, Thames Water Utilities Limited.

### 4. Finance income

	2018 £m	2017 £m
Interest receivable from direct subsidiary undertaking	-	1.1

### 5. Finance expense

	2018 £m	2017 £m
<b>On intercompany borrowings</b>		
Payable to immediate parent undertaking	198.0	198.0
Payable to direct subsidiary undertaking	16.6	19.8
<b>Total</b>	<b>214.6</b>	<b>217.8</b>

## Notes to the financial statements (continued)

### 6. Taxation

	2018 £m	2017 £m
<b>Current tax</b>		
Amounts receivable in respect of group relief	31.5	26.0
Adjustments in respect of previous periods	1.2	(2.6)
<b>Total tax credit</b>	<b>32.7</b>	<b>23.4</b>

The current tax credit for the year ended 31 March 2018 is higher (2017: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £m	2017 £m
Loss on ordinary activities before taxation	(159.6)	(59.7)
Current tax at 19% (2017: 20%)	30.3	11.9
<i>Effects of:</i>		
Non-taxable income (dividend from UK company)	10.5	31.4
Tax losses sold at lower than the statutory rate	(9.3)	(17.3)
Adjustments to tax charge in respect of prior periods	1.2	(2.6)
<b>Total tax credit</b>	<b>32.7</b>	<b>23.4</b>

In the current year there are no unrecognised deferred tax balances.

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. As the company has no deferred tax asset or liability at the year end, there is no effect on the financial statements.

## Notes to the financial statements (continued)

### 7. Investment in subsidiaries

	2018 £m	2017 £m
Cost of shares in subsidiary undertakings	4,250.0	4,250.0

The Company had the following investments in direct and indirect subsidiary undertakings, all of which are wholly owned by the Group, at 31 March 2018:

	Principal undertaking	Country of incorporation	Tax resident	Class of shares held
<b>Direct undertakings</b>				
Thames Water Utilities Limited	Water and wastewater	United Kingdom	United Kingdom	£1 Ordinary
<b>Indirect undertakings</b>				
Thames Water Utilities Finance Limited	Financing Company	United Kingdom	United Kingdom	£1 Ordinary
Thames Water Utilities Cayman Finance Holdings Limited	Holding Company	Cayman Islands	United Kingdom	\$1 Ordinary
Thames Water Utilities Cayman Finance Limited	Financing Company	Cayman Islands	United Kingdom	\$1 Ordinary

The address of the registered office of all the above companies (excluding Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited) is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. The address of the registered office for both Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited is PO Box 309GT, Uglad House, South Church Street, George Town, Grand Cayman, Cayman Islands. Both are, and always have been, residents in the United Kingdom for tax purposes.

The Directors have considered the carrying value of investments and concluded that no impairment is required.

### 8. Trade and other receivables

	2018 £m	2017 £m
<b>Amounts falling due within one year</b>		
Group relief debtors	119.3	107.3

The Directors have reviewed the carrying value of the trade and other receivables and do not consider any impairment to be required.

## Notes to the financial statements (continued)

### 9. Borrowings

	2018 £m	2017 £m
<b>Amounts owed to group undertakings</b>		
Thames Water Limited	1,980.1	1,980.1
Thames Water Utilities Limited	1,974.8	1,974.8
	3,954.9	3,954.9
<b>Interest payable on amounts owed to group undertakings</b>		
Thames Water Limited	520.3	377.4
Thames Water Utilities Limited	3.2	7.2
	523.5	384.6
<b>Total</b>	<b>4,478.4</b>	<b>4,339.5</b>
Disclosed within non-current liabilities	4,478.4	3,954.9
Disclosed within current liabilities	-	384.6

Amounts owed to Thames Water Limited, the immediate parent company, are unsecured and represent amounts of unpaid deferred consideration on the purchase of Thames Water Utilities Limited. Interest on this balance is payable at 10% (2017: 10%) and the interest repayment is determined by agreement between both parties. Repayment of the loan is at the discretion of the Company but must be repaid by 2056.

Amounts owed to Thames Water Utilities Limited, the direct subsidiary company, are unsecured and interest is charged at a rate of LIBOR + 0.35% (2017: LIBOR + 0.35%). The loan is repayable by 21 August 2037.

During the year management have reviewed the classification of the interest on amounts owed to group undertakings and have taken the decision to reclassify the interest payable balances from current to non-current as the amount of interest owed to group undertakings is not expected to be paid within one year from the date of the balance sheet.

### 10. Called up share capital

	2018 £	2017 £
<i>Allotted, called up and fully paid:</i>		
2 ordinary shares of £1 each (2017: £1)	2	2

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

### 11. Related parties

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, the Company has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the group. The consolidated financial statements of Kemble Water Holdings Limited, within which this Company is included, can be obtained from the address in note 13.



## Notes to the financial statements (continued)

### 12. Guarantees and capital commitments

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 Obligor under the whole business securitisation entered into in 2007. The Obligor 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 2018 was £11.2 billion (2017: £10.6 billion). At 31 March 2018, the Company had no capital commitments (2017: £nil).

### 13. Ultimate parent company and parent company of larger group

The immediate parent company of Thames Water Utilities Holdings Limited is Thames Water Limited, a company incorporated in the United Kingdom, which owns 100% of the issued share capital of the Company.

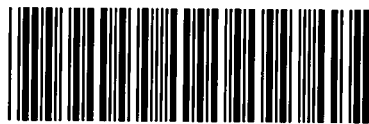
Kemble Water Finance Limited, a company incorporated in the United Kingdom, is the smallest group to consolidate these financial statements.

The Directors consider the ultimate parent company and controlling party to be Kemble Water Holdings Limited, a company incorporated in the United Kingdom and largest group to consolidate these financial statements. The address of the registered office of KWH is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office at this address.

# **Thames Water Utilities Holdings Limited**

**Annual report and financial statements  
For the year ended 31 March 2017**

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## **Directors and advisors**

### **Directors**

Sir P Mason KBE – Chairman  
R Blomfield-Smith  
K Bradbury  
J Divoky  
A Hall  
G Lambert  
P Noble  
A Osorio  
P Sochocki  
G Tucker  
C Van Heijningen  
Y Wang

### **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 2017.

### Business review

The principal activity of the Company, being an intermediate holding company within the Kemble Water Holdings Limited group of companies ("the Group"), remains unchanged from the previous year. The Group's principal activity is the appointed supply of water and wastewater services to customers in the London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL") in accordance with TWUL's licence of appointment.

The Company is the immediate parent company of TWUL, and is also part of a securitisation group of companies ("the Securitisation Group"). This arrangement comprises the Company and the following wholly owned direct and indirect subsidiaries:

- Thames Water Utilities Limited;
- Thames Water Utilities Finance Limited;
- Thames Water Utilities Cayman Finance Holdings Limited; and
- Thames Water Utilities Cayman Finance Limited.

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. The guaranteed debt as at 31 March 2017 was £10.6 billion (2016: £10.7 billion). A Corporate Family Rating ("CFR") is assigned by Moody's and reflects the consolidated rating of the different classes of outstanding external debt obligations issued by the companies within the Securitisation Group. On 7 October 2016 this rating was reaffirmed by Moody's as investment grade BAA1 with stable outlook. Consequently the Directors do not consider that it is probable that a payment will be required under this guarantee and no provision relating to this has been made in the financial statements.

In addition to its role as an intermediate holding company, the Company has loans with other companies within the Group, on which interest has been charged at pre-agreed rates. Cash received in the year of £52.8 million from subsidiaries was used to settle interest accrued and partially pay the principal on the 2037 £1,974.8 million loan to TWUL (2016: £2,015.0 million). The Company continues to make its tax losses available to other companies within the Group and as at 31 March 2017 the total amount owing from group companies in respect of group relief was £107.3 million (2016: £83.9 million).

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. In the year to 31 March 2017 the total dividend received of £157.0 million from TWUL was used to fund an interest payment to Thames Water Limited charged in the year on the £1,980.1 million loan which expires in 2056.

The Directors have determined that the result before tax and the net assets or liabilities are the most appropriate key performance indicators for an understanding of the development, performance and position of the Company. For the year ended 31 March 2017 the Company made a loss before tax of £59.7 million (2016: £135.5 million). The Directors have reviewed the carrying value of the investment in TWUL and have concluded that the reduced dividend received in the year is not indicative of a long term decline in recoverable value. Consequently no impairment losses (2016: none) arising from this loss have been recognised. As at 31 March 2017, the Company had net assets of £17.8 million (2016: £54.1 million). This is in line with expectations, and the Directors have no concerns regarding the performance or position of the Company.

## Strategic report (continued)

### Principal risks and uncertainties

The Company's operations specifically expose it to a variety of financial risks that include credit and liquidity risk as follows:

(i) 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 intercompany receivable balances. Credit control policies and procedures are in place to minimise the risk of bad debt arising from the intercompany receivables including, where appropriate, a review of the credit ratings of counterparty intercompany entities and any letters of support they may receive from the Group.

(ii) 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 has received a letter of support from the ultimate parent company confirming that it will provide support as necessary to enable it to meet its liabilities as they fall due for a period of 12 months from the signing of these financial statements. The Directors are satisfied to place reliance on this support based on a review of the Groups budget and business plan, as well as consideration given that all borrowings are to other intercompany entities.

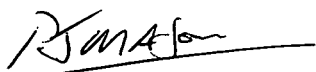
The Group's treasury operations are managed centrally by a specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors of the Company's ultimate parent company, Kemble Water Holdings Limited. The operation of the treasury function is governed by 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 policies and procedures are incorporated within the financial control procedures of the Group.

From the perspective of the Company all other risks and uncertainties not disclosed above, including those pertaining to its investment in TWUL, are integrated with the principal risks of the Group and are not managed separately. The principal risks of the Group are disclosed in the financial statements of the ultimate controlling parent Kemble Water Holdings Limited. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company not disclosed above, 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 13.

### 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 13 June 2017 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 annual report and the audited financial statements of Thames Water Utilities Holdings Limited for the year ended 31 March 2017. The Directors consider that the annual report and 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 number of the Company is 06195202.

### Directors

The Directors who held office during the year ended 31 March 2017 and to the date of this report were:

Sir P Mason KBE – Chairman	
E Beckley	(resigned 30 August 2016)
R Blomfield-Smith	
K Bradbury	(appointed 31 May 2017)
M Braithwaite	(appointed 30 August 2016, resigned 31 May 2017)
J Divoky	
R Greenleaf	(resigned 31 May 2017)
A Hall	(appointed 31 May 2017)
G Lambert	
P Noble	
A Osorio	
P Sochocki	(appointed 31 May 2017)
G Tucker	
C Van Heijningen	
Y Wang	

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 (2016: none).

Directors are allowed to appoint an alternative Director to represent them if they are unable to attend a meeting. The following Directors have formally appointed alternate Directors to represent them when they are unavailable:

Director	Alternate Director
G Tucker	P Mulholland
P Noble	P Hofbauer (resigned 12 October 2016)
	E Lewis (appointed 12 October 2016)
Y Wang	F Sheng
J Divoky	L Webb

### Future outlook

The future outlook of the Company is discussed in the Strategic Report.

### Dividends

The Company has paid no dividends during either the current or preceding financial year and the Directors do not recommend the payment of a final dividend (2016: £nil).

### Financial risk management

The Company has access to the Chief Executive and the Executive Team of Thames Water Utilities Limited, who also manage the wider Kemble Water Holdings Group on a day-to-day basis on behalf of the Directors of 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 operations expose it to a variety of financial risks which are described in the strategic report on pages 4 and 5.

## Directors' report (continued)

### Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Company is in a net current liabilities position at the year end and consequently the Company's ultimate parent, Kemble Water Holdings Limited, has agreed to support the Company for a period of at least 12 months from the date of these financial statements.

The Directors have reviewed the Group's financial forecasts for the forthcoming financial year, considered the Group's compliance with its covenants and the cash, current asset investments and available borrowing facilities available at 31 March 2017 in making their assessment of the Group's going concern.

The Directors believe, after due and careful enquiry, and taking into account the support of the ultimate parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

### Political and charitable donations

No political or charitable donations were made by the Company during the year (2016: £nil).

### 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 they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

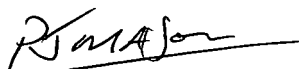
### Directors' indemnities

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

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 13 June 2017 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 financial statements

The Directors are responsible for preparing the Strategic Report, Directors Report and the financial statements in accordance with applicable UK 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

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 United Kingdom Accounting Standards, including FRS 101, 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 2017 set out on pages 10 to 21. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

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 Statement of Directors' Responsibilities set out on page 8, 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 2017 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101); 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 is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

## 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.

  
Robert Brent (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
13 June 2017

## Income Statement

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Income from shares in group undertakings	3	157.0	82.4
Finance income	4	1.1	2.1
Finance expense	5	(217.8)	(220.0)
<b>Loss on ordinary activities before taxation</b>		<b>(59.7)</b>	<b>(135.5)</b>
Taxation on loss on ordinary activities	6	23.4	44.2
<b>Loss for the year</b>		<b>(36.3)</b>	<b>(91.3)</b>

All amounts relate to continuing operations.

The Company has no recognised gains or losses other than the items set out above and therefore no separate statement of comprehensive income has been presented.

The accounting policies and notes on pages 13 to 21 are an integral part of these financial statements.

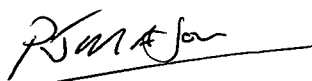
## Statement of financial position

As at 31 March 2017

	Note	2017 £m	2016 £m
<b>Non-current assets</b>			
Investment in subsidiaries	7	4,250.0	4,250.0
<b>Current assets</b>			
Trade and other receivables	8	107.3	135.5
<b>Current liabilities</b>			
Borrowings	9	(384.6)	(336.3)
<b>Net current liabilities</b>		<b>(277.3)</b>	<b>(200.8)</b>
<b>Non-current liabilities</b>			
Borrowings	9	(3,954.9)	(3,995.1)
<b>Net assets</b>		<b>17.8</b>	<b>54.1</b>
<b>Equity</b>			
Share capital	10	-	-
Retained earnings		17.8	54.1
<b>Total equity</b>		<b>17.8</b>	<b>54.1</b>

The accounting policies and notes on pages 13 to 21 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 13 June 2017 and signed on its behalf by:



Sir Peter Mason KBE  
Chairman

Registered number: 06195202 (England & Wales)

## Statement of changes in equity

For the year ended 31 March 2017

	Share Capital £m	Retained earnings £m	Total equity £m
<b>At 1 April 2015</b>	-	145.4	<b>145.4</b>
Loss for the year	-	(91.3)	<b>(91.3)</b>
<b>At 31 March 2016</b>	-	54.1	<b>54.1</b>
Loss for the year	-	(36.3)	<b>(36.3)</b>
<b>At 31 March 2017</b>	-	17.8	<b>17.8</b>

The accounting policies and notes on pages 13 to 21 are an integral part of these financial statements.

## Accounting policies

The following accounting policies have been adopted in the preparation of these financial statements. They have been applied consistently in dealing with items which are considered material, except as noted below:

### General information

Thames Water Utilities Holdings Limited ("the Company") is a company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Company's principal activity is that of an intermediate holding company in the Kemble Water Holdings Limited Group of companies ("the Group"), and remains unchanged from the previous year. The Company is the immediate parent company of Thames Water Utilities Limited ("TWUL"), a regulated provider of water and sewerage services.

### Basis of Preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and on a going concern basis.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the European Union ("EU adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As permitted by FRS 101, the Company has taken advantage of the following exemptions:

- IFRS 7 *Financial instruments: Disclosures*
- Paragraphs 91 to 99 of IFRS 13 *Fair value measurement* (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1 *Presentation of financial statements* comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1 (reconciliations between the carrying amount at the beginning and end of the period)
  - 10(d) (statement of cash flows)
- The following paragraphs of IAS 1 *Presentation of financial statements*:
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS),
  - 38A (requirement for minimum of two primary statements, including cash flow statements),
  - 38B-D (additional comparative information),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures).
- IAS 7 *Statement of cash flows*
- Paragraph 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and errors* (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24 *Related party disclosures* (key management compensation)
- The requirements in IAS 24 *Related party disclosures* to disclose related party transactions entered into between two or more members of a group.

## Accounting policies (continued)

The Company's ultimate parent undertaking, Kemble Water Holdings Limited ("KWH") includes the Company in its consolidated financial statements. The address of the registered office of KWH is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. The consolidated financial statements of KWH are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU adopted IFRSs") and are available to the public and may be obtained The Company Secretary's Office at this address.

The Company is exempt by virtue of s400 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, Kemble Water Holdings Limited ("KWH").

KWH has confirmed that it will continue to provide support to Thames Water Utilities Holdings Limited to enable it to meet its liabilities as they fall due for a period of at least twelve months from the date of signing of these financial statements. The Directors of the Company have considered it appropriate to place reliance on this support, based upon a review of the Group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The Directors also took into account potential contingent liabilities and other risk factors in making their assessment.

The Directors believe, after due and careful enquiry, and taking into account the support of the ultimate parent company, that the Company has sufficient financial resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least twelve months from the date of approval of these financial statements. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

### Non-current asset investment in subsidiaries

Investments in subsidiary undertakings are stated at cost, less any provision for impairment. Reviews for impairment are performed annually.

### Non-derivative financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and interest bearing borrowings.

#### *Trade and other receivables*

Trade and other receivables are measured at fair value on initial recognition. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If there is objective evidence that the asset is impaired it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense within operating costs. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect, and is assessed by management on a case-by-case basis.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

## Accounting policies (continued)

### *Interest bearing borrowings*

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### *Impairment of financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each financial 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 and can be measured 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 is reversed through the income statement.

Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Company's historical collection experience.

### *De-recognition of financial instruments*

A financial asset is de-recognised when the rights to receive cash flows from the asset have expired.

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

### *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### *Dividends*

Dividends unpaid at the financial reporting date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. This occurs when the shareholders right to receive the payment has been established. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Dividend income is recognised when there is a legal right to receive payment.

### *Taxation*

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income.

### *Current income tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.



## Accounting policies (continued)

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

### *Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary difference and deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

### *Deferred tax assets and liabilities*

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### *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.

### *Significant accounting judgements and key sources of estimation uncertainty*

In the process of applying the Company's accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on available information. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date used in preparing these financial statements are as follows:

#### *Impairment of receivables, including intercompany loan receivables*

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors such as credit rating of the receivable, the ageing profile of receivables and historical experience. See note 8 for the net carrying value of the receivables and, where applicable, any associated impairment provision.

#### *Impairment of investments in subsidiaries*

Determining whether the company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value-in-use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. See note 7 for the net carrying value of the investments and associated impairment provision.

## Notes to the financial statements

### 1. Auditor's remuneration

The auditor's remuneration was borne by Thames Water Limited in both the current and preceding financial year. The total amount payable relating to the Company was £3,500 (2016: £1,820). No other fees were payable to KPMG LLP in respect of this Company during the year (2016: £nil).

### 2. Employees and Directors

#### Employees

The company had no employees during the year (2016: none).

The Directors received no remuneration in respect of their services to the Company, as none were qualifying services, in both the current and preceding financial year. There were no retirement benefits accruing in either the current or preceding financial year.

#### Directors

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 (2016: £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.

### 3. Income from shares from group undertaking

The income from shares in group undertakings of £157.0 million (2016: £82.4 million) relates wholly to dividends received from the Company's direct subsidiary, Thames Water Utilities Limited.

### 4. Finance income

	2017 £m	2016 £m
Receivable from direct subsidiary undertaking	1.1	2.1

### 5. Finance expense

	2017 £m	2016 £m
<b>On intercompany borrowings</b>		
Payable to immediate parent undertaking	198.0	198.5
Payable to direct subsidiary undertaking	19.8	21.5
<b>Total</b>	<b>217.8</b>	<b>220.0</b>

## Notes to the financial statements (continued)

### 6. Taxation

	2017 £m	2016 £m
<b>Current tax</b>		
Amounts receivable in respect of group relief	26.0	28.4
Adjustments in respect of previous periods	(2.6)	15.8
<b>Total tax credit</b>	<b>23.4</b>	<b>44.2</b>

The current tax credit for the year ended 31 March 2017 is higher (2016: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £m	2016 £m
Loss on ordinary activities before taxation	(59.7)	(135.5)
Current tax at 20% (2016: 20%)	11.9	27.1
<i>Effects of:</i>		
Non-taxable income (dividend from UK company)	31.4	16.5
Tax losses	(17.3)	(15.2)
Adjustments to tax charge in respect of prior periods	(2.6)	15.8
<b>Total tax credit</b>	<b>23.4</b>	<b>44.2</b>

In the current year there are nil unrecognised deferred tax balances.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. As the company has no deferred tax asset or liability at the year end, there is no effect on the financial statements.

## Notes to the financial statements (continued)

### 7. Investment in subsidiaries

	2017 £m	2016 £m
Cost of shares in subsidiary undertakings	4,250.0	4,250.0

The Company had the following investments in direct and indirect subsidiary undertakings, all of which are wholly owned by the Group, at 31 March 2017:

	Principal undertaking	Country of incorporation	Class of shares held
<b>Direct undertakings</b>			
Thames Water Utilities Limited	Water and wastewater	United Kingdom	£1 Ordinary
<b>Indirect undertakings</b>			
Thames Water Utilities Finance Limited	Financing Company	United Kingdom	£1 Ordinary
Thames Water Utilities Cayman Finance Holdings Limited	Holding Company	Cayman Islands	\$1 Ordinary
Thames Water Utilities Cayman Finance Limited	Financing Company	Cayman Islands	\$1 Ordinary

The address of the registered office of all the above companies (excluding Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited) is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. The address of the registered office for both Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited is PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. Both are, and always have been, residents in the United Kingdom for tax purposes.

The Directors have considered the carrying value of investments and concluded that no impairment is required.

### 8. Trade and other receivables

	2017 £m	2016 £m
<b>Amounts falling due within one year</b>		
Group relief debtors	107.3	83.9
Receivable from direct subsidiary undertaking	-	51.6
<b>Total</b>	<b>107.3</b>	<b>135.5</b>

Amounts receivable from direct subsidiary undertaking is repayable on demand and unsecured. This relates to a non-cash settlement from TWUL in the previous financial year arising from an election made by TWUL to disclaim capital allowances. Interest on the unpaid balance at 31 March 2017 has been charged at a market rate of interest.

The Directors have reviewed the carrying value of the trade and other receivables and do not consider any impairment to be required.

## Notes to the financial statements (continued)

### 9. Borrowings

	2017 £m	2016 £m
<b>Amounts owed to group undertakings</b>		
Thames Water Limited	1,980.1	1,980.1
Thames Water Utilities Limited	1,974.8	2,015.0
	<b>3,954.9</b>	<b>3,995.1</b>
<b>Interest payable on amounts owed to group undertakings</b>		
Thames Water Limited	377.4	336.3
Thames Water Utilities Limited	7.2	-
	<b>384.6</b>	<b>336.3</b>
<b>Total</b>	<b>4,339.5</b>	<b>4,331.4</b>
Disclosed within non-current liabilities	3,954.9	3,995.1
Disclosed within current liabilities	384.6	336.3

Amounts owed to Thames Water Limited, the immediate parent company, are unsecured and represent amounts of unpaid deferred consideration on the purchase of Thames Water Utilities Limited. Interest on this balance is payable at 10% (2016: 10%) and the interest repayment is determined by agreement between both parties. Repayment of the loan is at the discretion of the Company but must be repaid by 2056.

Amounts owed to Thames Water Utilities Limited, the direct subsidiary company, are unsecured and interest is charged at a rate of LIBOR + 0.35% (2016: LIBOR + 0.35%). The loan is repayable by 21 August 2037.

### 10. Called up share capital

	2017 £	2016 £
<i>Allotted, called up and fully paid:</i>		
2 ordinary shares of £1 each (2016: £1)	2	2

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

### 11. Related parties

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, the Company has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the group. The consolidated financial statements of Kemble Water Holdings Limited, within which this Company is included, can be obtained from the address in note 13.

### 12. Guarantees and capital commitments

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 2017 was £10.6 billion (2016: £10.7 billion). At 31 March 2017, the Company had no capital commitments (2016: £nil).

## Notes to the financial statements (continued)

### 13. Ultimate parent company and parent company of larger group

The immediate parent company of Thames Water Utilities Holdings Limited is Thames Water Limited which owns 100% of the issued share capital of the Company.

Kemble Water Finance Limited, a company incorporated in the United Kingdom, is the smallest group to consolidate these financial statements.

The Directors consider the ultimate parent company and controlling party to be Kemble Water Holdings Limited, a company incorporated in the United Kingdom and largest group to consolidate these financial statements. The address of the registered office of KWH is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office at this address.

### 14. Post balance sheet events

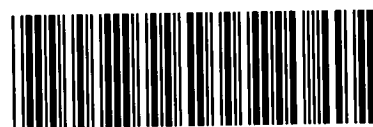
#### New bonds issued

A total of £550.0 million in new class B sterling bonds were issued by Thames Water Utilities Cayman Finance Limited on 3rd May 2017, with a £300.0 million tranche maturing in 2023 and £250.0 million maturing in 2027. The proceeds are expected to be used to fund the redemption of the existing £550.0 million class B bonds which mature in 2025 but have their first call date in July 2017.

## **Thames Water Utilities Finance Limited**

Annual report and financial statements  
For the year ended 31 March 2018

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## **Directors and advisors**

### **Directors**

S Wheeler  
T Lewis  
T Bolton

### **Registered auditor**

KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

### **Company secretary & registered office**

D Hughes  
Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

## Strategic report

The Directors present their Strategic Report for Thames Water Utilities Finance Limited ("the Company") for the year ended 31 March 2018.

### Review of the business and strategy

The Company's principal activity is to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL"), the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") group of companies ("the Group"). This remains unchanged from the previous year. The ultimate parent undertaking is KWH. The major transactions of the Company constitute the raising of finance and subsequent lending of debt at mirrored terms to TWUL.

The Company manages the market risks associated with raising debt using derivative financial instruments and ultimately passes on the proceeds to TWUL.

The Company is part of a securitisation group of companies which comprises the Company, TWUL, Thames Water Utilities Holdings Limited ("TWUH"), Thames Water Utilities Cayman Finance Limited ("TWUCF") and Thames Water Utilities Cayman Finance Holdings Limited ("TWUCFH") (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. The guaranteed debt as at 31 March 2018 was £11.2bn (2017: £10.6bn).

### Credit rating

We continue to maintain a strong investment grade credit rating assigned by external rating agencies Moody's and Standard and Poor ("S&P").

In May 2018, Moody's affirmed our Baa1 Corporate Family Rating ("CFR") but placed us on negative outlook (2017: stable outlook). This continues to be a strong investment grade credit rating supporting our ratings of A3 and Baa3 for our Class A and Class B debt respectively. The change to negative outlook reflects a change in assessment of the stability and predictability of the UK water regulatory regime rather than a reflection of our operational performance.

In September 2017, S&P, assigned us a credit rating of BBB+ and BBB- (2017: A- and BBB) in respect of our Class A debt and our Class B debt respectively and placed us on stable outlook (2017: negative outlook). These ratings allow us to access efficiently priced debt to fund our investment programmes, whilst keeping bills affordable for our customers.

### Gearing and interest cover

As part of the Whole Business Securitisation agreement with our secured creditors, we are required to keep gearing and interest cover within the Securitisation Group within certain limits. Under these covenant conditions, a gearing level above 85.0% or an interest cover ratio of below 1.1x would impose certain conditions, including a restriction on distributions.

The Securitisation Group's investments are funded by a combination of equity from shareholders and from borrowings under long term secured financing arrangements including bank loans and bonds. Its gearing is 81.3% (2017: 81.5%), measured by comparing the sum of our net debt (covenant basis) of £11,140.4m (2017: £10,549.5m) against stated Regulatory Capital Value ("RCV") of £13,704.8m (2017: £12,944.0m).

Interest cover measures the ratio of operating cashflow to net interest expense. As of 31 March 2018, this ratio was 1.6x (2017: 1.7x) versus a covenant level of 1.1x (2017: 1.1x).

### Results and performance

During the year, finance income increased to £173.3m (2017: £147.9m) arising on interest due from TWUL on intercompany lending. Finance expenses as a result of raising funds on TWUL'S behalf amounted to £161.4m (2017: £141.4m).

## Strategic report (continued)

### Results and performance (continued)

For the financial year ended 31 March 2018, the Company made a profit before tax of £44.5m (2017: loss before tax of £68.4m) principally due to a fair value gain of £32.6m on derivatives (2017: fair value loss of £74.9m) which are marked to market through the income statement. The fair value gain during the current period is due to a decrease in the projected inflation forecast affecting RPI-related transactions and includes a £11.3m credit resulting from use of more sophisticated modelling techniques to calculate credit risk adjustments that are required when valuing derivative financial instruments. On this basis the Company's performance is in line with expectations and the Directors have no concerns regarding the performance or position of the Company.

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 did not pay any dividends during the year (2017: £nil) and the Directors do not recommend payment of a final dividend (2017: £nil).

### Principal risks and uncertainties

The Company is a financing subsidiary of TWUL and is part of the securitisation group. All financing transactions and obligations are passed on to TWUL by way of intercompany loans.

The Company's operations expose it to a variety of capital and financial risks. The Group's treasury operations are managed centrally, by a specialist team, in the UK. The team operates with delegated authority of, and under policies approved by, the Group's Board of Directors, therefore, risks are managed on a Group wide basis.

The treasury function is managed as a cost centre, not a profit centre. 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. The treasury policy and procedures are incorporated within the financial control procedures of the Group.

There are a number of uncertainties in connection with the future of the UK and its relationship with the EU. The Board has considered the consequences that Brexit could have upon the Company and have concluded that whilst it does not represent a new risk in itself, it may impact a number of existing risks on an individual basis e.g. market risk, credit risk and liquidity risk.

### Capital risk management

Capital risk relates to whether the Company is adequately capitalised and financially solvent. The key objectives of the funding strategy are to retain the Company's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing treasury policy and approving the treasury strategy and funding plan on an annual basis.

The capital structure of the Company consists of net debt and equity. The Company's net debt is comprised of cash and cash equivalents, bonds, derivative financial instruments and intercompany loans from immediate parent undertaking.

The Company is part of a securitisation group of companies. The Securitisation Group is required to comply with certain financial and non-financial covenants. The financial covenants include an interest cover ratio and a RCV to net debt ratio. The securitisation group complied with these ratios throughout the financial year.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Company against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used to an extent to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### *Financial risk management*

##### *(i) Market risk*

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

Financial instruments entered by the Company include fixed rate bonds, RPI linked bonds and swaps. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. RPI linked instruments are exposed to movements in the RPI index. All debt raised by the Company are lent to TWUL, a regulated water company with RPI linked revenue which form partial economic hedges for RPI linked borrowings.

##### *(ii) 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 loans to its immediate parent entity Thames Water Utilities Limited and cash flows receivable from counterparties to the derivative financial instruments. Credit control policies and procedures are in place to minimise the risk of bad debt arising from receivables including, where appropriate, a review of the budget and forecasts of the counterparty entity. Additionally, 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.

Under the terms of the Whole Business Securitisation agreement, counterparties to the Company's short term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. In respect of the derivative counterparties 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.

##### *(iii) 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 maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that diverse debt maturity profiles are maintained.

Details of the Company's borrowings and other financial instruments are disclosed in notes 9 and 10 respectively.

#### **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 financial statements of the main trading subsidiary, TWUL, the annual report and consolidated financial statements of the ultimate controlling company, Kemble Water Holdings Limited, both of which are available from the address shown on page 30 and Companies House. TWUL's financial statements are also available online at [www.thameswater.co.uk](http://www.thameswater.co.uk).

## Strategic report (continued)

### Future outlook

The Company has not issued any new external debt since 2006, and continues to hold the debt that was issued and the accompanying intercompany loans lent to TWUL up to maturity. Debt issued by the Company matures between 2020 and 2055.

The Company expects to repay its debt as it falls due by way of TWUL repaying the relevant proportion of its intercompany loan with the Company. The next tranche of debt due for repayment is a £200m 5.05% fixed rate bond due in June 2020.

Approved by the Board of Directors on 27 June 2018 and signed on its behalf by:



Stephen Wheeler  
Director

Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

## Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2018. The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to access the Company's performance and strategy.

The registered company number is 02403744.

### Future outlook

The future outlook of the Company is discussed in the Strategic Report.

### 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 and the requirement for ongoing support from TWUL. This is based upon a review of TWUL's (and that of the Securitisation Group's) budget, business plan for the five years 2015-2020 and investment programme, together with the cash and committed borrowing facilities available. The Board has also taken 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.

The Directors believe, after due and careful enquiry, and taken into account the support of the parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For this purpose the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements.

### Dividends

The Company did not pay any dividends in the year (2017: £nil) and the Directors do not recommend the payment of a final dividend (2017: £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 2018 and to the date of this report were:

S Wheeler

T Lewis (Appointed 27 September 2017)

T Bolton (Appointed 27 September 2017)

The Director who held office during the year ended 31 March 2018 and resigned before the date of this report was:

P Kerr (Resigned 13 April 2018)

S Ledger (Resigned 29 September 2017)

S Zhang (Resigned 15 September 2017)

During the year, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2017: none).

### Political and charitable donations

No political or charitable donations were made by the Company during the year (2017: £nil).

## Directors' report (continued)

### Financial risk management

The Company has access to the Chief Executive and the 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 individual group companies.

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report.

### 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 they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

KPMG LLP is the Company's auditor at the date of this report. PricewaterhouseCoopers LLP will replace KPMG LLP with effect from the financial year ending 31 March 2019. The appointment is subject to approval by shareholders at the next Annual General Meeting in June 2018.

Approved by the Board of Directors on 27 June 2018 and signed on its behalf by:



Stephen Wheeler  
Director

Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

## Statement of Directors' responsibilities in respect of the annual report and 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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 the Members of Thames Water Utilities Finance Limited

### 1 Our opinion is unmodified

We have audited the financial statements of Thames Water Utilities Finance Limited ("the Company") for the year ended 31 March 2018 which comprise the Income statement, the Statement of financial position, the Statement of changes of equity, the Statement of cash flows and the related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors for the financial year ended 31 March 2009. The period of total uninterrupted engagement is for the 10 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

### 2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

# Independent Auditor's Report to the Members of Thames Water Utilities Finance Limited (continued)

## 2 Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
<b>Valuation of financial derivatives</b> (£231.6m; 2017: £264.1m) <i>Refer to accounting policies and note 10 (financial instruments).</i>	<b>Subjective Valuation</b> The financial derivative liability represents 7% of the company's total liabilities at 31 March 2018.  IFRS 13 requires the use of an exit price to value derivatives, defining this as the price that would be received to sell an asset or be paid to transfer a liability. This exit price must include credit risk, both the counterparty credit risk and the company's own credit risk. Given the length of the swaps that the company enters in to, the impact of these adjustments is material. In the current year the Company has updated the methodology used to value the credit risk adjustments. The complexity and level of judgment required in credit risk calculations, in particular the estimation of the Company's own credit risk, increases the risk of error.	Our procedures included:  <b>Accounting analysis:</b> Utilising our own valuation specialists to assess the appropriateness of the methodologies used and inputs driving the valuations; and the accounting treatment for complex instruments. As part of their procedures, our valuation specialists benchmarked the Company's valuation methodologies against externally derived data;  <b>Benchmarking assumptions:</b> Testing the fair value estimates through the use of our own valuation experts' determination of independent fair value estimates, establishing an acceptable range to benchmark the Company's valuations against;  <b>Assessing transparency:</b> Testing the accuracy of the fair value disclosures, including assessing the Fair Value Hierarchy (Level 1,2,3) as stipulated by the relevant standards and comparing to the Company's conclusions.  Our results The results of our testing were satisfactory and we consider the valuation of financial instruments to be acceptable.

## 3 Our application of materiality and an overview of the scope of our audit

Thames Water Utilities Finance Limited is part of a group headed by Kemble Water Holdings Limited. Materiality of £22m (2016: £22m), as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.74% of the Company's total assets (2017: 0.75%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.1m (2017: £1.1m), in addition to other identified misstatements that warranted reporting on qualitative grounds

Our audit of the company was undertaken to the materiality level specified above and was all performed at the company's head office in Reading.

## 4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

# **Independent Auditor's Report to the Members of Thames Water Utilities Finance Limited (continued)**

## **5 We have nothing to report on the strategic report and the directors' report**

The Directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **6 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

## **7 Respective responsibilities**

### ***Directors' responsibilities***

As explained more fully in their statement set out on page 8, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### ***Auditor's responsibilities***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### ***Irregularities – ability to detect***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

## **Independent Auditor's Report to the Members of Thames Water Utilities Finance Limited (continued)**

### **7 Respective responsibilities (continued)**

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities)/ irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

### **8 The purpose of our audit work and to whom we owe our responsibilities**

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.



**Simon Weaver (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

27 June 2018

## Income statement

For the year ended 31 March

	Note	2018 £m	2017 £m
Finance income	4	173.3	147.9
Finance expense	5	(161.4)	(141.4)
Net gain/(loss) on financial instruments	6	32.6	(74.9)
<b>Profit/(Loss) on ordinary activities before taxation</b>		<b>44.5</b>	<b>(68.4)</b>
Tax (charge)/credit	7	(7.5)	9.8
<b>Profit/(Loss) for the financial year</b>		<b>37.0</b>	<b>(58.6)</b>

All amounts relate to continuing operations.

The Company has no gains or losses other than the items set out above and therefore no separate statement of comprehensive income has been presented.

The accounting policies and notes on pages 17 to 30 are an integral part of these financial statements.

## Statement of financial position

As at 31 March

	Note	2018 £m	2017 £m
<b>Non-current assets</b>			
Intercompany loans receivable	8	2,891.4	2,836.7
Deferred tax asset	11	34.8	42.9
		<b>2,926.2</b>	<b>2,879.6</b>
<b>Current assets</b>			
Intercompany loans receivable	8	53.4	51.6
Group relief receivable		1.5	0.9
		<b>54.9</b>	<b>52.5</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	9	(61.9)	(56.8)
		<b>(61.9)</b>	<b>(56.8)</b>
<b>Net current liabilities</b>		<b>(7.0)</b>	<b>(4.3)</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	9	(2,863.3)	(2,823.9)
Derivative financial liabilities	10	(231.6)	(264.1)
		<b>(3,094.9)</b>	<b>(3,088.0)</b>
<b>Net liabilities</b>		<b>(175.7)</b>	<b>(212.7)</b>
<b>Equity</b>			
Share capital	12	0.1	0.1
Retained losses		(175.8)	(212.8)
<b>Total deficit</b>		<b>(175.7)</b>	<b>(212.7)</b>

The accounting policies and notes on pages 17 to 30 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 27 June 2018 and signed on its behalf by:



Stephen Wheeler  
Director

Registered number: 02403744 (England & Wales)

## Statement of changes in equity

For the year ended 31 March

	Share capital £m	Retained losses £m	Total equity £m
Balance at 1 April 2016	0.1	(154.2)	(154.1)
Loss for the financial year	-	(58.6)	(58.6)
<b>Balance at 31 March 2017</b>	<b>0.1</b>	<b>(212.8)</b>	<b>(212.7)</b>
Profit for the financial year	-	37.0	37.0
<b>Balance at 31 March 2018</b>	<b>0.1</b>	<b>(175.8)</b>	<b>(175.7)</b>

The accounting policies and notes on pages 17 to 30 are an integral part of these financial statements

## Statement of cash flows

For the year ended 31 March

	2018 £m	2017 £m
<b>Cash flows from operating activities</b>		
Profit/(Loss) for the year	37.0	(58.6)
Less finance income	(173.3)	(147.9)
Add finance expense	161.4	141.4
(Less)/add (gain)/loss on fair value of financial instruments	(32.6)	74.9
Add/(less) tax charge/(credit) on profit	7.5	(9.8)
<b>Net cash from operating activities</b>	-	-
<b>Cash flows from investing activities</b>		
Interest received	116.7	116.0
<b>Net cash inflow from investing activities</b>	116.7	116.0
<b>Cash flows from financing activities</b>		
Interest paid	(116.7)	(116.0)
<b>Net cash outflow from financing activities</b>	(116.7)	(116.0)
<b>Net movement in cash and cash equivalents</b>	-	-
Cash and cash equivalents at the beginning of the year	-	-
<b>Cash and cash equivalents at the end of the year</b>	-	-



## Accounting policies

The following accounting policies have been adopted in the preparation of these financial statements. They have been applied consistently in dealing with items considered material.

### General information

Thames Water Utilities Finance Limited (the "Company") is a company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB. The Company's principal activity is to act as a financing company to Thames Water Utilities Limited ("TWUL"), the main trading subsidiary of the Kemble Water Holdings Limited Group, which remains unchanged from the previous year.

### Statement of compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

### Basis of preparation

The financial statements for the year ended 31 March 2018, set out on pages 13 to 30, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority, however, as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

### 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 and the requirement for on-going support from TWUL. This is based upon a review of TWUL's (and that of the securitisation group's) budget, business plan for the five years 2015-2020 and investment programme, together with the cash and committed borrowing facilities available. The Board has also taken 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.

The Directors believe, after due and careful enquiry, and taking into account the support of the parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For this purpose the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements.

### Finance income and finance expense

Finance income represents the recharge to TWUL of costs and interest incurred in respect of the raising of finance on that company's behalf recognised as it falls due. All interest and debt servicing costs are recharged to TWUL. The Company's finance expense represents the interest costs on loans and borrowings recognised on an accruals basis.

### Non-derivative financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise cash and cash equivalent, intercompany loans receivable and borrowings.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

## Accounting policies (continued)

### Non-derivative financial instruments (continued)

#### *Interest bearing loans to other group companies*

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. An exchange or modification of interest bearing loans issued to other group companies with substantially different terms is accounted for as derecognition of the original financial asset and the recognition of new financial asset. If an exchange of loan or modification of terms is accounted for as derecognition, any costs or fees incurred are recognised as part of the gain or loss on the derecognition. If the exchange or modification is not accounted for as derecognition, any costs or fees incurred adjust the carrying amount of the financial asset and are amortised over the remaining term of the modified financial asset.

#### *Interest bearing borrowings*

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. An exchange or modification of interest bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial liability and are amortised over the remaining term of the modified financial liability.

### Derivative financial instruments

Derivatives are used to manage exposure to movements in interest rates and inflation. A financial instrument is classified as derivative if:

- its value changes in response to the change in a specified interest rate, foreign exchange rate or index of prices or rates,
- it requires no initial net investment or an initial net investment that is smaller than the underlying notional or principal, and
- it is settled at a future date.

### Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each financial reporting date. Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value reflects the non-performance risk.

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

### Financial guarantees

The Company raises debt in external debt markets through the issuance of secured bonds and issue of loans. The Company, TWUH, TWUL, TWUCF and TWUCFH 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.

## Accounting policies (continued)

### 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 and can be measured 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 Income Statement.

### 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 the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

#### *Deferred taxation*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the statement of financial position date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### New accounting policies and future reporting changes

No new financial reporting standards have been adopted by the Company that have a material impact on the financial statements in the current year. The following issued standards have not yet been adopted by the Company:

- IFRS 9: Financial instruments, which will be effective on 1 January 2018 (and thus to the Company 1 April 2018);
- IFRS 15 Revenue from Contracts with Customers, which will be effective on 1 January 2018 (and thus to the Company 1 April 2018); and
- IFRS 16 Leases, which will be effective on 1 January 2019 (and thus to the Company 1 April 2019), subject to EU endorsement.

In addition to these, there are a number of other amendments and annual improvement project recommendations that are not yet effective but which have been endorsed by the EU. These are not anticipated to have a material impact on the financial statements of the Company.

## Accounting policies (continued)

### New accounting policies and future requirements (continued)

#### *IFRS 9 impact assessment*

IFRS 9 Financial instruments which have been endorsed by the European Union (EU), will be effective from 1 January 2018 (and thus 1 April 2018 to the Company). This standard replaces IAS 39 Financial Instruments: Recognition and Measurement and sets out the requirements for classifying, recognising and measuring financial assets and financial liabilities. During the year, management have continued to progress their impact assessment for adoption of the standard, focussing on the nature of financial instruments held and the way in which they are used. Management have concluded that there will be no material impact on adoption of this standard.

#### *IFRS 15 impact assessment*

IFRS 15 Revenue which has been endorsed by the European Union (EU), will be effective from 1 January 2018, and replaces a number of standards and interpretations including IAS 18 Revenue. The Company does not apply any of the standards which IFRS 15 replaces and therefore IFRS 15 will not be applicable to the Company.

#### *IFRS 16 impact assessment*

IFRS 16 Leases is effective from 1 January 2019, and is subject to EU endorsement. This standard replaces IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company does not apply IAS 17 and therefore IFRS 16 will not be applicable to the Company.

### Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on available information. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date used in preparing these financial statements are as follows:

#### *Fair value of derivatives*

The fair value of financial assets and liabilities represents the price that would be received to sell an asset, or paid to transfer a liability between informed and willing parties, other than in a forced liquidation sale at the measurement date. The fair value of derivatives is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates at the measurement date. The valuations are tested for reasonableness by comparing to bank quotes. The fair value calculations have been adjusted to incorporate the Company's own and counterparty's credit risk where appropriate.

## Notes to the financial statements

### 1. Staff numbers and costs

The Company had no employees during the year (2017: none).

The Directors received no remuneration in respect of their services to the Company, as none were qualifying services, in both the current and preceding financial year. There are no retirement benefits accruing to any Director (2017: £nil).

### 2. Auditor's remuneration

The auditor's remuneration of £11,508 (2017: £7,311) was borne by Thames Water Limited in both the current and preceding financial year. No other fees were payable to KPMG LLP in respect of this company during the year (2017: £nil).

### 3. Segmental analysis

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 debt to TWUL. Consequently the Directors review the financial information of the Company as a whole and therefore have not included segmental analysis within these financial statements.

### 4. Finance income

	2018 £m	2017 £m
Interest receivable on intercompany loans receivable	167.3	141.5
Interest income on swaps	6.0	6.4
	<b>173.3</b>	<b>147.9</b>

### 5. Finance expense

	2018 £m	2017 £m
Interest payable on other loans	158.7	138.8
Interest expense on swaps	2.7	2.6
	<b>161.4</b>	<b>141.4</b>

### 6. Net gain/(loss) on financial instruments

	2018 £m	2017 £m
Gain/(loss) arising on swaps where hedge accounting is not applied	32.6	(74.9)
	<b>32.6</b>	<b>(74.9)</b>

Gain/(loss) arising on swaps reflects movements in long term RPI market rates.

## Notes to the financial statements (continued)

### 7. Taxation

	2018 £m	2017 £m
<b>Current tax:</b>		
Amounts receivable in respect of group relief	(0.6)	(0.5)
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	8.1	(9.3)
<b>Tax charge/(credit) on profit/loss on ordinary activities</b>	<b>7.5</b>	<b>(9.8)</b>

The tax assessed for the period is lower (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018 £m	2017 £m
Profit/(loss) on ordinary activities before tax	44.5	(68.4)
Corporation tax on profit/(loss) on ordinary activities at 19% (2017: 20%)	8.5	(13.6)
Effect of tax rate differences	(1.0)	3.8
<b>Total tax charge/(credit) for year</b>	<b>7.5</b>	<b>(9.8)</b>

#### *Factors affecting the future tax charge*

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 March 2018 has been calculated based on these rates.

### 8. Intercompany loans receivable

	2018 £m	2017 £m
<b>Amounts owed by group undertakings</b>		
Thames Water Utilities Limited	2,891.4	2,836.7
<b>Interest owed by group undertakings</b>		
Thames Water Utilities Limited	53.4	51.6
<b>Total</b>	<b>2,944.8</b>	<b>2,888.3</b>
Disclosed within non-current assets	2,891.4	2,836.7
Disclosed within current assets	53.4	51.6

There are no amounts past their due by dates. As these assets relate to intercompany 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.

All loans and receivables are held at amortised cost.

## Notes to the financial statements (continued)

### 9. Interest bearing loans and borrowings

	2018 £m	2017 £m
Secured bonds	2,663.3	2,623.9
Amounts owed to group undertakings	200.0	200.0
	<b>2,863.3</b>	<b>2,823.9</b>
Interest payable on secured bonds	47.5	47.3
Interest payable on amounts owed to group undertakings	14.4	9.5
	<b>61.9</b>	<b>56.8</b>
<b>Total</b>	<b>2,925.2</b>	<b>2,880.7</b>
Disclosed within non-current liabilities	2,863.3	2,823.9
Disclosed within current liabilities	61.9	56.8

Debt issued by the Company matures between 2020 and 2055 (2017: due between 2020 and 2055).

The Company uses derivatives to swap fixed rate debt to index-linked debt, which is on lent to TWUL, a regulated company and the immediate parent Company with index-linked revenues. Details on the derivatives are included in note 10.

TWUL, Thames Water Utilities Cayman Finance Limited, Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds.

Interest on the loan from Thames Water Utilities Limited is charged at a floating rate (2017: floating rate).

#### Breakdown of secured bonds

	2018 £m	2017 £m
£200.0m 5.05% fixed rate bond due 2020 (c), (e)	200.0	200.0
£225.0m 6.59% fixed rate bond due 2021	225.0	225.0
£175.0m 3.38% index linked bond due 2021 (a), (d)	273.5	263.9
£330.0m 6.75% fixed rate bond due 2028 (a)	327.4	327.3
£200.0m 6.50% fixed rate bond due 2032 (a)	197.7	197.6
£600.0m 5.13% fixed rate bond due 2037 (a)	596.4	596.3
£300.0m 1.68% index linked bond due 2053 (a), (d)	421.7	406.9
£300.0m 1.68% index linked bond due 2055 (a), (d)	421.6	406.9
£200.0m floating rate loan due 2039 (b), (e), (f)	200.0	200.0
<b>Total</b>	<b>2,863.3</b>	<b>2,823.9</b>

(a) These loans are shown net of issue costs.

(b) This is an intercompany loan due to Thames Water Utilities Limited, the immediate parent company.

(c) The Company has entered into swap agreements that convert £100.0m of 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 index-linked swap associated with this debt has accretion pay downs at five year intervals.

(f) The Company has entered into an index-linked swap, in relation to this debt.

## Notes to the financial statements (continued)

### 10. Financial instruments

#### Categories of financial instruments

The carrying values of the financial assets and liabilities of the Company are as follows:

	2018 £m	2017 £m
<i>Financial assets:</i>		
<i>Loans and receivables at amortised cost</i>		
Amounts owed by group undertakings	2,944.8	2,888.3
<b>Total</b>	<b>2,944.8</b>	<b>2,888.3</b>
<i>Financial liabilities:</i>		
<i>Fair value through profit and loss</i>		
Index-linked swaps	231.6	264.1
<i>Other financial liabilities at amortised cost</i>		
Borrowings	2,925.2	2,880.7
<b>Total</b>	<b>3,156.8</b>	<b>3,144.8</b>

#### Fair value measurements

The fair value of the financial assets and liabilities represent the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale, at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable.

Unless otherwise stated, all of the Company's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result we have concluded that it is appropriate to continue to classify the derivatives instruments as Level 2.

The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2018, all of which are classified within financial liabilities:

	Level 2 <sup>1</sup>	
	2018 £m	2017 £m
Financial liabilities – derivative financial instruments		
Index-linked swaps	231.6	264.1



## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

#### Fair value measurements (continued)

<sup>1</sup> The fair value of derivative financial instruments is measured using discounted cash flows. The future cash flows are estimated based on observable forward inflation rates at the period end and discounted at a rate that reflects credit risk of the Company and the counterparties. During the year, the Company has introduced more sophisticated modelling techniques to calculate credit risk adjustments that are required when valuing derivative financial instruments. These address changes in market practice. The fair value gain on swaps includes a £11.3m credit resulting from use of these improvements.

During the current and preceding year the Company did not enter any new derivative contracts.

#### Comparison of fair value of financial instruments with their carrying amounts

The tables below set out a comparison of the carrying and fair values of the Company's financial assets and financial liabilities.

	2018		2017	
	Book value £m	Fair Value £m	Book value £m	Fair Value £m
<b>Financial assets:</b>				
Loans receivable from group entities	2,944.8	4,118.5	2,888.3	4,300.2
<b>Total</b>	<b>2,944.8</b>	<b>4,118.5</b>	<b>2,888.3</b>	<b>4,300.2</b>
<b>Financial liabilities:</b>				
Borrowings				
- Fixed rate bond	1,546.5	1,930.2	1,546.2	2,117.6
- Index-linked bond	1,116.8	1,770.8	1,077.7	1,718.5
- Amounts owed to group undertakings	200.0	200.0	200.0	200.0
Interest payable	61.9	61.9	56.8	56.8
Derivative financial liabilities	231.6	231.6	264.1	264.1
<b>Total</b>	<b>3,156.8</b>	<b>4,194.5</b>	<b>3,144.8</b>	<b>4,357.0</b>

The fair values of bonds are based on Level 1 of the fair value hierarchy; the fair value has been determined using quoted prices in active markets for identical assets or liabilities. The bonds are traded on a public market. Fair values for these have been calculated using the 31 March 2018 quoted price. The fair value of loans receivable from group entities represents the market value of the publicly traded underlying bonds, associated derivatives and fair value of one intercompany loan with TWUL.

#### Capital risk management

Details of the Company's capital risk management strategy can be found in the Strategic Report.

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

#### Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including both changes arising from cash flow and non-cash changes.

	2018		2017	
	Borrowings	Derivative financial liabilities	Borrowings	Derivative financial liabilities
	£m	£m	£m	£m
<b>Opening balance</b>	<b>(2,880.7)</b>	<b>(264.1)</b>	<b>(2,855.2)</b>	<b>(189.1)</b>
Non-Current	(2,823.9)	(264.1)	(2,803.7)	(189.1)
Current	(56.8)	-	(51.5)	
<b>Cash flows</b>				
Interest paid	114.0	2.7	113.4	2.6
Interest received	-	(6.0)	-	(6.6)
	114.0	(3.3)	113.4	(4.0)
<b>Non-cash changes</b>				
Net interest (charge)/income and fees amortisation	(119.6)	3.3	(119.2)	3.9
Accretion	(38.9)	-	(19.7)	-
Fair value changes	-	32.5		(74.9)
	(158.5)	35.8	(138.9)	(71.0)
<b>Closing balance</b>	<b>(2,925.2)</b>	<b>(231.6)</b>	<b>(2,880.7)</b>	<b>(264.1)</b>
Non-Current	(2,863.3)	(231.6)	(2,823.9)	(264.1)
Current	(61.9)	-	(56.8)	-

#### Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk and exchange rate risk), credit risk, liquidity risk and inflation risk. A detail of the nature of each of these risks along with the steps the Company has taken to manage them is described in the Strategic Report.

##### (a) Market Risk

###### (i) Interest rate risk

Below is the effective interest rate risk profile of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk.

	2018 £m	2017 £m
Fixed rate	1,446.5	1,446.2
RPI linked rate	1,444.9	1,390.5
<b>Total</b>	<b>2,891.4</b>	<b>2,836.7</b>

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

The weighted average interest rates of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk and the period until maturity for which the rate is fixed or index linked are given below:

	Weighted average interest rate				Weighted average period until maturity			
	2018		2017		2018		2017	
	%		%		Years		Years	
	Fixed	Index-linked	Fixed	Index-linked	Fixed	Index-linked	Fixed	Index-linked
£ Sterling	5.9	5.5	5.9	3.9	12.3	26.0	13.3	27.0
<b>Total</b>	<b>5.9</b>	<b>5.5</b>	<b>5.9</b>	<b>3.9</b>	<b>12.3</b>	<b>26.0</b>	<b>13.3</b>	<b>27.0</b>

#### Interest rate risk sensitivity analysis

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2018. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2018		2017	
	+1% £m	-1% £m	+1% £m	-1% £m
Profit / (loss)	56.0	(74.1)	72.7	(88.1)
Equity	56.0	(74.1)	72.7	(88.1)

#### (ii) Inflation risk sensitivity analysis

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2018. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2018		2017	
	+1% £m	-1% £m	+1% £m	-1% £m
Profit	(97.2)	76.1	(116.5)	97.2
Equity	(97.2)	76.1	(116.5)	97.2

#### (b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses; therefore, the maximum exposure to credit risk at the balance sheet date was £2,944.8 (2017: £2,888.3m) as shown below:

	2018 £m	2017 £m
Intercompany loans receivable	2,891.4	2,836.7
Interest receivable on intercompany loans receivable	53.4	51.6
<b>Total</b>	<b>2,944.8</b>	<b>2,888.3</b>

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

The Company is a financing subsidiary of TWUL. Its principal activity is to ensure the liquidity needs of the securitisation group are met through continued access to the capital market. Proceeds of funding activities are on lent to TWUL. The above described financial 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 dates.

#### (c) Liquidity Risk

Details of the nature and management of the Company's liquidity risk is provided in the Strategic Report.

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 2020 and 2055.

	2018 £m	2017 £m
- Within one year	-	-
- Between one and two years	-	-
- Between two and three years	200.0	-
- Between three and four years	498.5	200.0
- Between four and five years	-	488.9
- After more than five years	2,164.8	2,135.0
<b>Total</b>	<b>2,863.3</b>	<b>2,823.9</b>

#### (i) Cash flows from non-derivative financial liabilities

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:

Undiscounted amounts payable	2018 £m	2017 £m
- Within one year	(114.4)	(113.6)
- Between one and two years	(115.7)	(114.9)
- Between two and three years	(311.4)	(115.7)
- Between three and four years	(645.4)	(311.5)
- Between four and five years	(82.6)	(646.3)
- After more than five years	(5,683.1)	(5,841.1)
<b>Total</b>	<b>(6,952.6)</b>	<b>(7,143.1)</b>

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

#### (ii) Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives, based on undiscounted cash flows, is as follows:

	2018 £m	2017 £m
Undiscounted amounts payable		
- Within one year	6.1	5.6
- Between one and two years	(34.6)	5.5
- Between two and three years	(19.4)	(36.0)
- Between three and four years	2.9	(20.7)
- Between four and five years	2.8	2.0
- After more than five years	(257.1)	(275.9)
<b>Total</b>	<b>(299.3)</b>	<b>(319.5)</b>

### 11. Deferred tax asset

The deferred tax asset relates to the cumulative fair value loss as detailed below:

	2018 £m	2017 £m
At the beginning of the year	42.9	33.6
Amounts provided during the year on fair value	(8.1)	11.8
Impact on deferred tax asset of tax rate change	-	(2.5)
<b>At the end of the year</b>	<b>34.8</b>	<b>42.9</b>

### 12. Share capital

	2018 £	2017 £
<b>Allotted, called-up and fully paid</b>		
12,500 ordinary shares of £1 each	12,500	12,500
<b>Allotted, called-up and partly paid</b>		
37,500 ordinary shares of £1 each	37,500	37,500
<b>Total</b>	<b>50,000</b>	<b>50,000</b>

The Company's ordinary shares carry no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

## Notes to the financial statements (continued)

### 13. Guarantees

The Company, Thames Water Utilities Holdings Limited, Thames Water Utilities 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 2018 was £11.2bn (2017: £10.6bn).

### 14. Immediate and ultimate parent and controlling party

TWUL, a company incorporated in the United Kingdom, is the immediate parent company, which owns 100% of the Company's share capital.

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 KWH, a company incorporated in the United Kingdom, to be the ultimate parent 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 Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

### 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. Loans receivable from group entities represent cumulative financing proceeds that have been lent on to TWUL.

There are no amounts past their due dates (2017: £nil).

As these assets relate to intercompany 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 £167.3m (2017: £141.5m).

Details of the loans receivable as a result of the above transactions can be found in note 8.

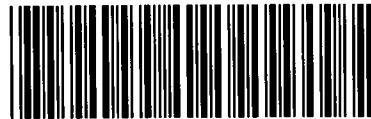
#### *Transactions with key management personnel*

During the year, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2017: none).

## **Thames Water Utilities Finance Limited**

Annual report and financial statements  
For the year ended 31 March 2017

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## **Directors and advisors**

### **Directors**

S Wheeler  
S Ledger  
P Kerr  
S Zhang

### **Registered auditor**

KPMG LLP  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

### **Company secretary & registered office**

David Hughes  
Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

## Strategic report

The Directors present their Strategic Report for Thames Water Utilities Finance Limited ("the Company") for the year ended 31 March 2017.

### Review of the business and strategy

The Company's principal activity is to act as a financing company to its immediate parent company, Thames Water Utilities Limited ("TWUL"), the main trading subsidiary of the Kemble Water Holdings Limited ("KWH") group of companies ("the Group"). This remains unchanged from the previous year. The ultimate parent undertaking is KWH. The major transactions of the Company constitute the raising of finance and subsequent lending of debt at mirrored terms to TWUL.

The Company manages the market risks associated with raising debt using derivative financial instruments and ultimately passes on the proceeds to TWUL.

The Company is part of a securitisation group of companies which comprises the Company, TWUL, Thames Water Utilities Holdings Limited ("TWUH"), Thames Water Utilities Cayman Finance Limited ("TWUCF") and Thames Water Utilities Cayman Finance Holdings Limited ("TWUCFH") (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. The guaranteed debt as at 31 March 2017 was £10.6bn (2016: £10.7bn).

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 Cayman Finance Limited and TWUL. TWUL's licence of appointment 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 improves the Company's access to the debt funding that is needed to support the delivery of TWUL's investment programme in an efficient and cost effective manner. Furthermore, Condition F of the licence includes a distribution lock up clause if the CFR is at Baa3 with negative outlook.

On 6 April 2017 Moody's reaffirmed the CFR at Baa1 with a stable outlook. Moody's guidance is that TWUL should maintain leverage of around 80% or under, and adjusted interest cover at around 1.3x or over. On 29 September 2016, S&P affirmed the Class A rating of A-, and the Class B rating of BBB, while retaining the Company on negative outlook. Based on these ratings the Directors do not consider that a payment will be required under the securitisation guarantee, and consequently no provision relating to this has been made in the financial statements.

### Gearing and interest cover

As part of the Whole Business Securitisation agreement with our secured creditors, we are required to keep gearing and interest cover within certain financials limits. Under these covenant conditions, a gearing level above 85.0% or an interest cover ratio of below 1.1x represents a trigger event, which includes a restriction on distributions. Our dividend policy requires that we maintain these ratios with or minimum headroom on the gearing ratio of 2%.

The Securitisation Group's investments are funded by a combination of equity from shareholders and from borrowings under long term secured financing arrangements including bank loans and bonds. Its gearing is 81.5% (2016: 81.0%), measured by comparing the sum of our net debt (covenant basis) of £10,549.5m (2016: £9,923.3m) against stated Regulatory Capital Value ("RCV") of £12,944.0m (2016: £12,256.1m).

Interest cover measures the ratio of operating cashflow to net interest expense. As of 31 March 2017, this ratio was 1.7x (2016: 1.8x) versus a covenant level of 1.1x (2016: 1.1x).

### Results and performance

During the year, finance income increased to £147.9m (2016: £136.0m) arising on interest due from TWUL on intercompany lending. Finance expenses as a result of raising funds on TWUL'S behalf amounted to £141.4m (2016: £133.7m).

## Strategic report (continued)

### Results and performance (continued)

For the financial year ended 31 March 2017, the Company made a loss before tax of £68.4m (2016: £4.0m) principally due to a fair value loss of £74.9m on derivatives (2016: £6.3m) which are marked to market through the income statement. The fair value loss during the current period is due to an increase in the projected inflation forecast affecting RPI-related transactions. On this basis the Company's performance is in line with expectations and the Directors have no concerns regarding the performance or position of the Company.

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 did not pay any dividends during the year (2016: £nil) and the Directors do not recommend payment of a dividend (2016: £nil).

### Principal risks and uncertainties

The Company is a financing subsidiary of TWUL and is part of the securitisation group. All financing transactions and obligations are passed on to TWUL by way of intercompany loans.

The Company's operations expose it to a variety of capital and financial risks. The Group's treasury operations are managed centrally, by a specialist team, in the UK. The team operates with delegated authority of, and under policies approved by, the Group's Board of Directors, therefore, risks are managed on a Group wide basis.

The treasury function is managed as a cost centre, not a profit centre. 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. The treasury policy and procedures are incorporated within the financial control procedures of the Group.

There are a number of uncertainties in connection with the future of the UK and its relationship with the EU. The Board has considered the consequences that Brexit could have upon the Company and have concluded that whilst it does not represent a new risk in itself, it may impact a number of existing risks on an individual basis e.g. market risk, credit risk and liquidity risk.

### Capital risk management

Capital risk relates to whether the Company is adequately capitalised and financially solvent. The key objectives of the funding strategy are to retain the Company's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing treasury policy and approving the treasury strategy and funding plan on an annual basis.

The capital structure of the Company consists of net debt and equity. The Company's net debt is comprised of cash and cash equivalents, bonds, derivative financial instruments and intercompany loans from immediate parent undertaking.

The Company is part of a securitisation group of companies. The Securitisation Group is required to comply with certain financial and non-financial covenants. The financial covenants include an interest cover ratio and a RCV to net debt ratio. The securitisation group complied with these ratios throughout the financial year.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Company against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used to an extent to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### *Financial risk management*

##### *(i) Market risk*

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

Financial instruments entered by the Company include fixed rate bonds, RPI linked bonds and swaps. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. RPI linked instruments are exposed to movements in the RPI index. All debt raised by the Company are lent to TWUL, a regulated water company with RPI linked revenue which form partial economic hedges for RPI linked borrowings.

##### *(ii) 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 loans to its immediate parent entity Thames Water Utilities Limited and cash flows receivable from counterparties to the derivative financial instruments. Credit control policies and procedures are in place to minimise the risk of bad debt arising from receivables including, where appropriate, a review of the budget and forecasts of the counterparty entity. Additionally, 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.

Under the terms of the Whole Business Securitisation agreement, counterparties to the Company's short term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. In respect of the derivative counterparties 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.

##### *(iii) 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 maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that diverse debt maturity profiles are maintained.

Details of the Company's borrowings and other financial instruments are disclosed in notes 9 and 10 respectively.

#### **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 financial statements of the main trading subsidiary, TWUL, the annual report and consolidated financial statements of the ultimate controlling company, Kemble Water Holdings Limited, both of which are available from the address shown on page 26 and Companies House. TWUL's financial statements are also available online at [www.thameswater.co.uk](http://www.thameswater.co.uk).

## Strategic report (continued)

### Future outlook

The Company ceased to issue any new external debt in 2006, and continues to hold the debt that was issued and the accompanying intercompany loans lent to TWUL up to maturity. Debt issued by the Company matures between 2020 and 2055.

The Company expects to repay its debt as it falls due by way of TWUL repaying the relevant proportion of its intercompany loan with the Company. The next tranche of debt due for repayment is a £200m 5.05% fixed rate bond due in June 2020.

Approved by the Board of Directors on 13 June 2017 and signed on its behalf by:



Stephen Wheeler  
Director

Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

## Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2017. The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to access the Company's performance and strategy.

The registered company number is 02403744.

### Future outlook

The future outlook of the Company is discussed in the Strategic Report.

### 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 and the requirement for on-going support from TWUL. This is based upon a review of TWUL's (and that of the Securitisation Group's) budget, business plan for the five years 2015-2020 and investment programme, together with the cash and committed borrowing facilities available. The Board has also taken 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.

The Directors believe, after due and careful enquiry, and taken into account the support of the parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For this purpose the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements.

### Dividends

The Company did not pay any dividends in the year (2016: £nil) and the Directors do not recommend the payment of a final dividend (2016: £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 2017 and to the date of this report were:

S Wheeler (appointed 1 March 2017)  
A Beaumont (resigned 31 December 2016)  
S Ledger  
P Kerr  
S Zhang (appointed 14 September 2016)

During the year, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2016: none).

### Political and charitable donations

No political or charitable donations were made by the Company during the year (2016: £nil).

## Directors' report (continued)

### Financial risk management

The Company has access to the Chief Executive and the 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 individual group companies.

The Company's operations expose it to a variety of financial risks which are described in the Strategic Report.

### 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 13 June 2017 and signed on its behalf by:



Stephen Wheeler  
Director

Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

## **Statement of Directors' responsibilities in respect of the Strategic report, the 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 IFRSs as adopted by the EU and applicable law.

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 they have been prepared in accordance with IFRSs as adopted by the EU; 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 Finance Limited

We have audited the financial statements of Thames Water Utilities Finance Limited for the year ended 31 March 2017 set out on pages 10 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 8, 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 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 2017 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 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 is consistent with the financial statements.


Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

## 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.



**Simon Weaver (Senior Statutory Auditor)**

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

London

E14 5GL

13 June 2017

## Income statement

For the year ended 31 March

	Note	2017 £m	2016 £m
Finance income	4	147.9	136.0
Finance expense	5	(141.4)	(133.7)
Net loss on financial instruments	6	(74.9)	(6.3)
<b>Loss on ordinary activities before taxation</b>		<b>(68.4)</b>	<b>(4.0)</b>
Tax (credit)/charge	7	9.8	(2.9)
<b>Loss for the financial year</b>		<b>(58.6)</b>	<b>(6.9)</b>

All amounts relate to continuing operations.

The Company has no gains or losses other than the items set out above and therefore no separate statement of comprehensive income has been presented.

The accounting policies and notes on pages 14 to 26 are an integral part of these financial statements.

## Statement of financial position

As at 31 March

	Note	2017 £m	2016 £m
<b>Non-current assets</b>			
Intercompany loans receivable	8	2,836.7	2,807.4
Deferred tax asset	11	42.9	33.6
		<b>2,879.6</b>	<b>2,841.0</b>
<b>Current assets</b>			
Intercompany loans receivable	8	51.6	48.8
Group relief receivable		0.9	0.4
		<b>52.5</b>	<b>49.2</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	9	(56.8)	(51.5)
		<b>(56.8)</b>	<b>(51.5)</b>
<b>Net current liabilities</b>		<b>(4.3)</b>	<b>(2.3)</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	9	(2,823.9)	(2,803.7)
Derivative financial liabilities	10	(264.1)	(189.1)
		<b>(3,088.0)</b>	<b>(2,992.8)</b>
<b>Net liabilities</b>		<b>(212.7)</b>	<b>(154.1)</b>
<b>Equity</b>			
Share capital	12	0.1	0.1
Retained losses		(212.8)	(154.2)
<b>Total deficit</b>		<b>(212.7)</b>	<b>(154.1)</b>

The accounting policies and notes on pages 14 to 26 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 13 June 2017 and signed on its behalf by:



Stephen Wheeler  
Director

Registered number: 02403744 (England & Wales)

## Statement of changes in equity

For the year ended 31 March

	Share capital	Retained losses	Total equity £m
Balance at 1 April 2015	0.1	(147.3)	(147.2)
Loss for the financial year	-	(6.9)	(6.9)
<b>Balance at 31 March 2016</b>	<b>0.1</b>	<b>(154.2)</b>	<b>(154.1)</b>
Loss for the financial year	-	(58.6)	(58.6)
<b>Balance at 31 March 2017</b>	<b>0.1</b>	<b>(212.8)</b>	<b>(212.7)</b>

The accounting policies and notes on pages 14 to 26 are an integral part of these financial statements

## Statement of cash flows

For the year ended 31 March

	2017 £m	2016 £m
<b>Cash flows from operating activities</b>		
Loss for the year	(58.6)	(6.9)
Less finance income	(147.9)	(136.0)
Add finance expense	141.4	133.7
Add loss on fair value of financial instruments	74.9	6.3
(Less) / add tax (credit) / charge on profit	(9.8)	2.9
<b>Net cash from operating activities</b>	-	-
<b>Cash flows from investing activities</b>		
Interest received	116.0	120.7
Redemption of loans to group companies	-	259.4
<b>Net cash inflow from investing activities</b>	116.0	380.1
<b>Cash flows from financing activities</b>		
Repayment of borrowings	-	(200.0)
Derivative accretion	-	(59.4)
Interest paid	(116.0)	(120.7)
<b>Net cash outflow from financing activities</b>	(116.0)	(380.1)
<b>Net movement in cash and cash equivalents</b>	-	-
Cash and cash equivalents at the beginning of the year	-	-
<b>Cash and cash equivalents at the end of the year</b>	-	-

## Accounting policies

The following accounting policies have been adopted in the preparation of these financial statements. They have been applied consistently in dealing with items considered material, except as noted below:

### General information

Thames Water Utilities Finance Limited (the “Company”) is a company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB. The Company’s principal activity is to act as a financing company to Thames Water Utilities Limited (“TWUL”), the main trading subsidiary of the Kemble Water Holdings Limited Group, which remains unchanged from the previous year.

### Statement of compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union (“EU”).

### Basis of preparation

The financial statements for the year ended 31 March 2017, set out on pages 10 to 26, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules (“DTR”) issued by the Financial Conduct Authority, however, as the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

### 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 and the requirement for on-going support from TWUL. This is based upon a review of TWUL’s (and that of the securitisation group’s) budget, business plan for the five years 2015-2020 and investment programme, together with the cash and committed borrowing facilities available. The Board has also taken 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.

The Directors believe, after due and careful enquiry, and taking into account the support of the parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For this purpose the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements.

### Finance income and finance expense

Finance income represents the recharge to TWUL of costs and interest incurred in respect of the raising of finance on that company’s behalf recognised as it falls due. All interest and debt servicing costs are recharged to TWUL. The Company’s finance expense represents the interest costs on loans and borrowings recognised on an accruals basis.

### Non-derivative financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise cash and cash equivalent, intercompany loans receivable and borrowings.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

## Accounting policies (continued)

### Non-derivative financial instruments (continued)

#### *Interest bearing loans to other group companies*

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. An exchange or modification of interest bearing loans issued to other group companies with substantially different terms is accounted for as derecognition of the original financial asset and the recognition of new financial asset. If an exchange of loan or modification of terms is accounted for as derecognition, any costs or fees incurred are recognised as part of the gain or loss on the derecognition. If the exchange or modification is not accounted for as derecognition, any costs or fees incurred adjust the carrying amount of the financial asset and are amortised over the remaining term of the modified financial asset.

#### *Interest bearing borrowings*

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. An exchange or modification of interest bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial liability and are amortised over the remaining term of the modified financial liability.

### Derivative financial instruments

Derivatives are used to manage exposure to movements in interest rates and inflation. A financial instrument is classified as derivative if:

- its value changes in response to the change in a specified interest rate, foreign exchange rate or index of prices or rates,
- it requires no initial net investment or an initial net investment that is smaller than the underlying notional or principal, and
- it is settled at a future date.

### Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each financial reporting date. Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value reflects the non-performance risk.

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

### Financial guarantees

The Company raises debt in external debt markets through the issuance of secured bonds and issue of loans. The Company, TWUH, TWUL, TWUCF and TWUCFH 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.

## Accounting policies (continued)

### 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 and can be measured 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 Income Statement.

### 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 the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

#### *Deferred taxation*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### New accounting policies and future requirements

At the date of approval of these financial statements the following standards and interpretations were in issue but not yet effective:

- IFRS 9 *Financial Instruments* which will be effective on 1 January 2018 (and thus for the Company 1 April 2018).

Management are conducting the assessment of the impact of IFRS 9 Financial Instruments on the Company. A review of the three phases of IFRS 9 is being conducted, Classification and Measurement, Impairment Methodology, and Hedge Accounting.

Classification and Measurement: The review has included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS 9. There are currently no indications that reclassifications of financial instruments will have a material impact on the financial statements.



## Accounting policies (continued)

**Impairment Methodology:** Management have assessed the current accounting policies (see “Impairment excluding inventories and deferred tax assets”) in relation to financial assets not held at fair value through profit or loss, and specifically for financial assets held at amortised cost. This is in accordance with the treatment required for financial assets under IFRS 9. As a result there is no change expected in the Company’s impairment methodology of financial assets, and therefore no material impact on the financial statements.

**Hedge Accounting:** IFRS 9 provides increased flexibility for hedge accounting. An assessment is planned for the forthcoming financial year which will involve identifying and evaluating the potential impact of any existing contracts which are currently not hedge accounted, but may be eligible for hedge accounting under IFRS 9. Therefore, to date, it is not possible to estimate the impact of any changes in hedge accounting on the financial statements.

### Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the Company’s accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on available information. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date used in preparing these financial statements are as follows:

#### *Fair value of derivatives*

The fair value of financial assets and liabilities represents the price that would be received to sell an asset, or paid to transfer a liability between informed and willing parties, other than in a forced liquidation sale at the measurement date. The fair value of derivatives 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 to bank quotes. The fair value calculations have been adjusted to incorporate the Company’s own and counterparty’s credit risk where appropriate.

## Notes to the financial statements

### 1. Staff numbers and costs

The Company had no employees during the year (2016: none).

The Directors received no remuneration in respect of their services to the Company, as none were qualifying services, in both the current and preceding financial year. There are no retirement benefits accruing to any Director (2016: £nil).

### 2. Auditor's remuneration

The auditor's remuneration of £7,311 (2016: £7,169) was borne by Thames Water Limited in both the current and preceding financial year. No other fees were payable to KPMG LLP in respect of this company during the year (2016: £nil).

### 3. Segmental analysis

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 debt to TWUL. Consequently the Directors review the financial information of the Company as a whole and therefore have not included segmental analysis within these financial statements.

### 4. Finance income

	2017 £m	2016 £m
Interest receivable on intercompany loans receivable	141.5	127.4
Interest income on swaps	6.4	8.6
	147.9	136.0

Interest receivable arises due to the financing costs of the Company being recharged to TWUL.

### 5. Finance expense

	2017 £m	2016 £m
Interest payable on other loans	138.8	131.0
Interest expense on swaps	2.6	2.7
	141.4	133.7

### 6. Net losses on financial instruments

	2017 £m	2016 £m
Loss arising on swaps where hedge accounting is not applied	(74.9)	(6.3)
	(74.9)	(6.3)

Loss arising on swaps reflects increase in long term RPI market rates.

## Notes to the financial statements (continued)

### 7. Taxation

	2017 £m	2016 £m
<b>Current tax:</b>		
Amounts receivable in respect of group relief	(0.5)	(0.4)
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(9.3)	3.3
<b>Tax (credit)/ charge on loss/profit on ordinary activities</b>	<b>(9.8)</b>	<b>2.9</b>

The tax assessed for the period is higher (2016: higher) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	2017 £m	2016 £m
(Loss)/profit on ordinary activities before tax	(68.4)	(4.0)
Corporation tax on (loss)/profit on ordinary activities at 20% (2016: 20%)	(13.6)	(0.8)
Effect of reduction in tax rate on deferred tax balances	3.8	3.7
<b>Total tax (credit)/ charge for year</b>	<b>(9.8)</b>	<b>2.9</b>

#### *Factors affecting the future tax charge*

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset as at 31 March 2017 has been calculated based on these rates.

### 8. Intercompany loans receivable

	2017 £m	2016 £m
<b>Amounts owed by group undertakings</b>		
Thames Water Utilities Limited	2,836.7	2,807.4
<b>Interest owed by group undertakings</b>		
Thames Water Utilities Limited	51.6	48.8
<b>Total</b>	<b>2,888.3</b>	<b>2,856.2</b>
Disclosed within non-current assets	2,836.7	2,807.4
Disclosed within current assets	51.6	48.8

There are no amounts past their due by dates. As these assets relate to intercompany 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.

All loans and receivables are held at amortised cost.

## Notes to the financial statements (continued)

### 9. Borrowings

	2017 £m	2016 £m
Secured bonds	2,623.9	2,603.7
Amounts owed to group undertakings	200.0	200.0
	2,823.9	2,803.7
Interest payable on secured bonds	47.3	47.4
Interest payable on amounts owed to group undertakings	9.5	4.1
	56.8	51.5
<b>Total</b>	<b>2,880.7</b>	<b>2,855.2</b>
Disclosed within non-current liabilities	2,823.9	2,803.7
Disclosed within current liabilities	56.8	51.5

Debt issued by the Company matures between 2020 and 2055 (2016: due between 2020 and 2055).

The Company uses derivatives to swap fixed rate debt to index-linked debt, which is on lent to TWUL, a regulated utility company and the immediate parent Company with index-linked revenues. Details on the derivatives are included in note 10.

TWUL, Thames Water Utilities Cayman Finance Limited, Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Holdings Limited have guaranteed the principal and interest payments due under the terms of the bonds.

Interest on the loan from Thames Water Utilities Limited is charged at a floating rate (2016: floating rate).

	2017 £m	2016 £m
£200.0m 5.05% fixed rate bond due 2020 (c), (e)	200.0	200.0
£225.0m 6.59% fixed rate bond due 2021	225.0	225.0
£175.0m 3.38% index linked bond due 2021 (a), (d)	263.9	259.0
£330.0m 6.75% fixed rate bond due 2028 (a)	327.3	327.2
£200.0m 6.50% fixed rate bond due 2032 (a)	197.6	197.5
£600.0m 5.13% fixed rate bond due 2037 (a)	596.3	596.2
£300.0m 1.68% index linked bond due 2053 (a), (d)	406.9	399.4
£300.0m 1.68% index linked bond due 2055 (a), (d)	406.9	399.4
£200.0m floating rate loan due 2039 (b), (e), (f)	200.0	200.0
<b>Total</b>	<b>2,823.9</b>	<b>2,803.7</b>

(a) These loans are shown net of issue costs.

(b) This is an intercompany loan due to Thames Water Utilities Limited, the immediate parent company.

(c) The Company has entered into swap agreements that convert £100.0m of 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 index-linked swap associated with this debt has accretion pay downs at five year intervals.

(f) The Company has entered into an index-linked swap, in relation to this debt.

## Notes to the financial statements (continued)

### 10. Financial instruments

#### Categories of financial instruments

The carrying values of the financial assets and liabilities of the Company are as follows:

	2017 £m	2016 £m
<i>Financial assets:</i>		
<i>Loans and receivables at amortised cost</i>		
Amounts owed by group undertakings	2,888.3	2,856.2
<b>Total</b>	<b>2,888.3</b>	<b>2,856.2</b>
<i>Financial liabilities:</i>		
<i>Fair value through profit and loss</i>		
Index-linked swaps	264.1	189.1
<i>Other financial liabilities at amortised cost</i>		
Borrowings	2,880.7	2,855.2
<b>Total</b>	<b>3,144.8</b>	<b>3,044.3</b>

#### Fair value measurements

The fair value of the financial assets and liabilities represent the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale, at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable.

Unless otherwise stated, all of the Company's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

The table below sets out the valuation basis of financial instruments held at fair value as at 31 March 2017, all of which are classified within financial liabilities:

	Level 2 <sup>1</sup>	
	2017 £m	2016 £m
Financial liabilities – derivative financial instruments		
Index-linked swaps	264.1	189.1

<sup>1</sup> The fair value of derivative financial instruments is measured using discounted cash flows. The future cash flows are estimated based on observable forward inflation rates at the period end and discounted at a rate that reflects credit risk of the Company and the counterparties.

During the current and preceding year the Company did not enter any new derivative contracts.

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

#### Comparison of fair value of financial instruments with their carrying amounts

The tables below set out a comparison of the carrying and fair values of the Company's financial assets and financial liabilities.

	2017		2016	
	Book value £m	Fair Value £m	Book value £m	Fair Value £m
<b>Financial assets:</b>				
Loans receivable from group entities	2,888.3	4,300.2	2,856.2	3,747.6
<b>Total</b>	<b>2,888.3</b>	<b>4,300.2</b>	<b>2,856.2</b>	<b>3,747.6</b>
<b>Financial liabilities:</b>				
Borrowings				
- Fixed rate bond	1,546.2	2,117.6	1,545.8	1,959.8
- Index-linked bond	1,077.7	1,718.5	1,057.9	1,398.7
- Amounts owed to group undertakings	200.0	200.0	200.0	200.0
Interest payable	56.8	56.8	51.5	51.5
Derivative financial liabilities	264.1	264.1	189.1	189.1
<b>Total</b>	<b>3,144.8</b>	<b>4,357.0</b>	<b>3,044.3</b>	<b>3,799.1</b>

The fair values of bonds are based on Level 1 of the fair value hierarchy, the fair value has been determined using quoted prices in active markets for identical assets or liabilities. The bonds are traded on a public market. Fair values for these have been calculated using the 31 March 2017 quoted price. The fair value of loans receivable from group entities represents the market value of the publicly traded underlying bonds and associated derivatives.

#### Capital risk management

Details of the Company's capital risk management strategy can be found in the Strategic Report.

#### Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk and exchange rate risk), credit risk, liquidity risk and inflation risk. A detail of the nature of each of these risks along with the steps the Company has taken to manage them is described in the Strategic Report.

##### (a) Market Risk

###### (i) Interest rate risk

Below is the effective interest rate risk profile of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk.

	2017 £m	2016 £m
Fixed rate	1,446.2	1,445.8
RPI linked rate	1,390.5	1,361.6
<b>Total</b>	<b>2,836.7</b>	<b>2,807.4</b>

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

The weighted average interest rates of the debt held by the Company after taking into account the derivative financial instruments used to manage market risk and the period until maturity for which the rate is fixed or index linked are given below:

	Weighted average interest rate				Weighted average period until maturity			
	2017		2016		2017		2016	
	%		%		Years		Years	
	Fixed	Index-linked	Fixed	Index-linked	Fixed	Index-linked	Fixed	Index-linked
£ Sterling	5.9	3.9	5.9	2.9	13.3	27.0	14.3	28.0
<b>Total</b>	<b>5.9</b>	<b>3.9</b>	<b>5.9</b>	<b>2.9</b>	<b>13.3</b>	<b>27.0</b>	<b>14.3</b>	<b>28.0</b>

#### Interest rate risk sensitivity analysis

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2017. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2017		2016	
	+1% £m	-1% £m	+1% £m	-1% £m
Profit / (loss)	72.7	(88.1)	75.6	(92.7)
Equity	72.7	(88.1)	75.6	(92.7)

#### (ii) Inflation risk sensitivity analysis

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2017. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2017		2016	
	+1% £m	-1% £m	+1% £m	-1% £m
Profit	(116.5)	97.2	(123.6)	102.2
Equity	(116.5)	97.2	(123.6)	102.2

#### (b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses; therefore, the maximum exposure to credit risk at the balance sheet date was £2,888.3 (2016: £2,856.2m) as shown below:

	2017 £m	2016 £m
Intercompany loans receivable	2,836.7	2,807.4
Interest receivable on intercompany loans receivable	51.6	48.8
<b>Total</b>	<b>2,888.3</b>	<b>2,856.2</b>

## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

The Company is a financing subsidiary of TWUL. Its principal activity is to ensure the liquidity needs of the securitisation group are met through continued access to the capital market. Proceeds of funding activities are on lent to TWUL. The above described financial 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 dates.

#### (c) Liquidity Risk

Details of the nature and management of the Company's liquidity risk is provided in the Strategic Report.

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 2020 and 2055.

	2017 £m	2016 £m
- Within one year	-	-
- Between one and two years	-	-
- Between two and three years	-	-
- Between three and four years	200.0	-
- Between four and five years	488.9	200.0
- After more than five years	2,135.0	2,603.7
<b>Total</b>	<b>2,823.9</b>	<b>2,803.7</b>

#### (i) Cash flows from non-derivative financial liabilities

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:

Undiscounted amounts payable	2017 £m	2016 £m
- Within one year	(113.6)	(113.2)
- Between one and two years	(114.9)	(114.0)
- Between two and three years	(115.7)	(114.8)
- Between three and four years	(311.5)	(115.5)
- Between four and five years	(646.3)	(311.2)
- After more than five years	(5,841.1)	(6,075.3)
<b>Total</b>	<b>(7,143.1)</b>	<b>(6,844.0)</b>



## Notes to the financial statements (continued)

### 10. Financial instruments (continued)

#### (ii) Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives, based on undiscounted cash flows, is as follows:

	2017 £m	2016 £m
Undiscounted amounts payable		
- Within one year	5.6	6.8
- Between one and two years	5.5	6.8
- Between two and three years	(36.0)	6.7
- Between three and four years	(20.7)	(31.1)
- Between four and five years	2.0	(16.9)
- After more than five years	(275.9)	(209.8)
<b>Total</b>	<b>(319.7)</b>	<b>(237.5)</b>

### 11. Deferred tax asset

The deferred tax asset relates to the cumulative fair value loss as detailed below:

	2017 £m	2016 £m
At the beginning of the year	33.6	36.9
Amounts provided during the year on fair value	11.8	0.4
Impact on deferred tax asset of tax rate change	(2.5)	(3.7)
<b>At the end of the year</b>	<b>42.9</b>	<b>33.6</b>

### 12. Share capital

	2017 £	2016 £
<b>Allotted, called-up and fully paid</b>		
12,500 ordinary shares of £1 each	12,500	12,500
<b>Allotted, called-up and partly paid</b>		
37,500 ordinary shares of £1 each	37,500	37,500
<b>Total</b>	<b>50,000</b>	<b>50,000</b>

The Company's ordinary shares carry no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

## Notes to the financial statements (continued)

### 13. Guarantees

The Company, Thames Water Utilities Holdings Limited, Thames Water Utilities 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 2017 was £10.6bn (2016: £10.7bn).

### 14. Related Parties

TWUL, a company incorporated in the United Kingdom, is the immediate parent company, which owns 100% of the Company's share capital.

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 KWH, a company incorporated in the United Kingdom, to be the ultimate parent 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 Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

#### *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. Loans receivable from group entities represent cumulative financing proceeds that have been lent on to TWUL.

There are no amounts past their due dates (2016: £nil).

As these assets relate to intercompany 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 £141.5 (2016: £127.4m).

Details of the loans receivable as a result of the above transactions can be found in note 8.

#### *Transactions with key management personnel*

During the year, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2016: none).

## GLOSSARY OF DEFINED TERMS

**PLEASE READ.** The defined terms used in this Prospectus and set out in this Glossary are disclosed on a conformed basis to reflect the amendments made to the Master Definitions Agreement on 30 August 2018. While the defined terms used in this Prospectus and set out in this Glossary reflect the Master Definitions Agreement, including any rules of interpretation or construction included in the Master Definitions Agreement, the terms of the definitions actually used in the Master Definitions Agreement may be different.

The Bondholders and other Secured Creditors are reminded that the defined terms in the Master Definitions Agreement govern and apply, not the conformed defined terms used in this Prospectus and set out in this Glossary, which are for disclosure purposes only.

A copy of the Master Definitions Agreement is available for inspection during normal business hours at the specified offices of the Bond Trustee and 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 following terms are used throughout this Prospectus:

“2009 Final Determination” means the final price determination made by Ofwat in respect of AMP5.

“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.

“2014 Final Determination” means the final price determination made by Ofwat in respect of AMP6.

“2018 Reorganisation and Substitution Costs” means any fees, costs or expenses payable in connection with the implementation of the 2018 Reorganisation Plan.

“2018 Reorganisation Plan” means the implementation by TWUL and the other Obligors of one or more of the following (1) the removal of TWUCFL and/or TWUCFH from the TWU Financing Group; (2) the substitution of the Issuer in place of TWUCFL pursuant to one or more Substitution Proposals; (3) in respect of future public bond issuances by the TWU Financing Group, the re-capitalisation and subsequent re-registration of the Issuer as a public limited liability company; (4) the settlement of any consideration or other amounts payable in connection with the substitutions or the removal of TWUCFL and/or TWUCFH from the TWU Financing Group and/or the re-capitalisation and subsequent re-registration of the Issuer as a public limited liability company; and (5) any preparatory steps in connection with the proposed solvent liquidation of TWUCFL and/or TWUCFH, in each case, effected by way of the transactions described in a relevant STID Proposal and as consented to by the Majority Creditors.

“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 as last amended and restated on 31 August 2018.

“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 originally between TWUCFL, TWUL and the Agents referred to therein (as amended from time to time, and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party) 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 or, where the context permits, the relevant five-year period in relation to which such asset management plan is submitted.

“AMP4” means the asset management plan prepared for the five-year period commencing on 1 April 2005 or, where the context permits, this five-year period commencing on 1 April 2005.

“AMP5” means the asset management plan prepared for the five-year period commencing on 1 April 2010 or, where the context permits, this five-year period commencing on 1 April 2010.

“AMP6” means the asset management plan to be prepared for the five-year period commencing on 1 April 2015 or, where the context permits, this five-year period commencing on 1 April 2015.

“AMP7” means the asset management plan to be prepared for the five-year period commencing on 1 April 2020 or, where the context permits, this five-year 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).

“Arranger” means Barclays Bank PLC, the lead arranger of the Programme.

“Assets” means the sewerage assets to be constructed and maintained by Bazalgette 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, historically, entered into by TWUCFL and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party) 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.

“Bazalgette” or “BTL” means Bazalgette Tunnel Limited.

“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 originally between, among others, TWUCFL and the Bond Trustee (as amended from time to time and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party) 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 (or historically appointed by TWUCFL) 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 originally to TWUCFL by the Initial Credit Facility Provider consisting of a £550 million tranche to be on-lent by TWUCFL to TWUL to meet, until the third anniversary of the Initial Issue Date, the capital expenditure and general corporate purposes of TWUL and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party.

“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) originally issued by TWUCFL on the Initial Issue Date (and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party);
  - (ii) the Secured TWUF Bonds (including any Secured TWUF FG Covered Bonds) issued by the Issuer;
  - (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 TWUCFL (and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party) or 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 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 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 account of the Issuer 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 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 TWUCFL (and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party) or 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.

“Commencement Date” means the date on which Bazalgette 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 and as last amended and restated on 31 August 2018.

“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 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 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 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 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 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 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.

“Consumer Prices Index” or “CPI” means the all items consumer prices index for the United Kingdom published by the Office for National Statistics (January 2015 = 100) or at any future date (except in the case of a CPI 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 a CPI Linked Hedging Agreement), such other index of retail prices as specified in such CPI Linked Hedging Agreement.

“Consumer Prices Index including Owner Occupiers’ Housing costs and Council Tax” or “CPIH” means the all items consumer prices index including owner occupiers’ housing costs and council tax for the United Kingdom published by the Office for National Statistics (January 2015 = 100) or at any future date (except in the case of a CPIH 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 a CPIH Linked Hedging Agreement), such other index of retail prices as specified in such CPIH Linked Hedging Agreement.

“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 originally made available to TWUCFL 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 originally entered into between, *inter alia*, TWUCFL 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 and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party.

“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 Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Commonwealth Bank of Australia (ABN 48 123 123 124), HSBC Bank plc, J.P. Morgan Securities plc, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, National Australia Bank Limited (ABN 12 004 044 937), NatWest Markets Plc, RBC Europe Limited, Scotiabank Europe plc, SMBC Nikko Capital Markets Limited and Société Générale 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 from time to time) 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 and including any Bearer Bond in definitive form issued by TWUCFL in respect of which the Issuer has been substituted in place of TWUCFL as issuer and principal debtor of such Bearer Bonds 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 and including any Registered Bond in definitive form issued by TWUCFL in respect of which the Issuer has been substituted in place of TWUCFL as issuer and principal debtor of such Registered Bonds 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 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 Bazalgette 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 1 per cent. of RCV in any consecutive 12 month period;
- (b) any payments made to such persons pursuant to any Outsourcing Agreements and/or Capex Contracts which were entered into and remain in compliance with the Outsourcing Policy save that if any Outsourcing Agreement and/or Capex Contract should cease to comply in all material respects with the Outsourcing Policy, all payments thereunder made by TWUL shall only be made as Distributions where such non-compliance has remained unremedied for a period in excess of 365 days from the date on which TWUL became aware of such non-compliance;
- (c) rental payments made to a member of the Thames Water Group in respect of any Permitted Property Lease granted in favour of TWUL by any member of the Thames Water Group;
- (d) payments made to such persons pursuant to arrangements entered into on terms that are not bona fide and arm’s length in the ordinary and usual course of trading to the extent that the aggregate of all such payments does not exceed 0.1 per cent. of RCV in any consecutive 12 month period; or
- (e) any payments made to such persons in respect of a Permitted Post Closing Event.

“DSR Liquidity 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 wastewater 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.

“Euronext Dublin” means The Irish Stock Exchange plc trading as Euronext Dublin.

“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.

“Exit Regulations” means the Water and Sewerage Undertakers (Exit from Non-household Retail Market) Regulations 2016.

“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 or the Issuer (as applicable) (or historically entered into by TWUCFL) and an Additional Secured Creditor designated as a Finance Document by TWUL or the Issuer (as applicable) (or historically designated by TWUCFL), 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 the Issuer 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 the Issuer, 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 the Issuer, 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, 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 (including any Registered Bond in global form in respect of which the Issuer has been substituted in place of TWUCFL as issuer or principal debtor of such Registered Bonds) 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, and the Issuer in their capacity as Guarantors pursuant to the Security Agreement (for so long as they remain as Guarantors or Obligors) 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 (or, historically, entered into by TWUCFL and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party) 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 (including any Registered Bonds in definitive form in respect of which TWUF has been substituted in place of TWUCFL as issuer or principal debtor of such Registered Bonds) 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 originally made available to TWUCFL under the Initial Credit Facility Agreement.

“Initial Credit Facility Agent” means the agent bank appointed under the Initial Credit Facility Agreement.

“Initial Credit Facility Agreement” means the facility agreement originally entered into between, *inter alios*, TWUCFL and the Initial Credit Facility Providers on the Initial Issue Date under which the Initial Credit Facility was originally made available to TWUCFL and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party.

“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 Corporate Markets 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 originally entered into on the Initial Issue Date between each of the Issuer, TWUCFL and the Initial DSR Liquidity Facility Providers pursuant to the Initial DSR Liquidity Facility Agreement and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party.

“Initial DSR Liquidity Facility Agreement” means each of the DSR Liquidity Facility Agreements originally entered into between each of the Issuer, TWUCFL and the Initial DSR Liquidity Facility Providers on the Initial Issue Date and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party.

“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 originally entered into between TWUCF and TWUL on the Initial Issue Date and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party.

“Initial O&M Reserve Facility” means the £105 million facility originally provided by the Initial O&M Reserve Facility Providers to TWUCFL pursuant to the Initial O&M Reserve Facility Agreement.

“Initial O&M Reserve Facility Agreement” means the O&M Reserve Facility Agreement originally entered into on the Initial Issue Date between the Initial O&M Reserve Facility Providers and TWUCFL and, if applicable, in respect of which the Issuer has been substituted in place of TWUCFL and TWUCFL has ceased to be a party.

“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 the Issuer 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, 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, 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, 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,

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.

“Instrument of Appointment” or “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.

“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 Charges” means the amount which Bazalgette 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(1) 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 Project Licence” means the project licence granted to Bazalgette 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 by Bazalgette 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.

“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 makes a utilisation of that facility (or, historically, the Issuer or, as the case may be, TWUCFL made 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 Finance plc, a company incorporated in England and Wales with limited liability under registered number 02403744.

“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 the Issuer 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 the Issuer, 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 the Issuer, 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.



“Kemble Shareholders” means, together, Farmoor Holdings BV, Omers Farmoor 2 Holdings B.V., Omers Farmoor 3 Holdings B.V., Omers Farmoor 4 Holdings B.V., Omers Farmoor 5 Holdings B.V., Church Water Investments Limited, Infinity Investments S.A., Wren House Infrastructure Investments Limited, BriTel Fund Trusteed Limited as custodian trustee of the BT Pension Scheme, Circero Investment Corporation, bcIMC SIF101 2006 Investment Corporation, QIC Infrastructure Management Pty Ltd, Aqiula GP Inc., Stichting Pensioenfonds Zorg en Wezijn, bcIMC WCBAF SIIF101 2006 Investment Corporation.

“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 the Issuer 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 the Issuer, 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 the Issuer, 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 the Issuer, 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 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 historically issued by, or provided to, TWUCFL and, if applicable, in respect of which the Issuer has been substituted in place of

TWUCFL and TWUCFL has ceased to be a party) 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 Euronext Dublin.

“Major Capex Projects” means each of (a) the Upper Thames Reservoir Project; (b) the construction of the Thames wastewater 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, 15 May 2015 and 31 August 2018 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 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.

“MEICA” means Mechanical Electrical Instrumentation Control Automation.

“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 and the Issuer (for so long as they remain as Obligors), 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 Euronext Dublin.

“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

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 or as from 1 April 2020, CPIH adjusted, as relevant, 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 (or, historically, TWUCFL) 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 (including any Bearer Bonds in respect of which TWUF has been substituted in place of TWUCFL as issuer or principal debtor of such Bearer Bonds) 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 TWUCFL; and (ii) the acquisition by such newly incorporated special purpose holding company of the shares of TWUCFL; 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 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 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 5 per cent. of Cash Expenses of TWUL during such Test Periods.

“Permitted Payments” means the application of monies credited to the Debt Service Payment Account in accordance with the Payment Priorities.

“Permitted Post Closing Events” means:

- (a) payment of transaction fees and expenses, to the extent not paid on the Initial Issue Date; or
- (b) payments and other actions by any or all Obligors or other entities to enable Kemble Water Limited to pay certain amounts outstanding under the Bridge Facility and related documentation and the discharge of the security created under such documents;
- (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;
- (d) the making of loans:
  - (i) to Thames Water Limited by TWUL in respect of the consideration owed by Thames Water Limited to TWUL in respect of the disposal of TWUCFL and/or TWUCFH;

- (ii) (if applicable) to the Issuer by TWUCFL in respect of the consideration owed by the Issuer in respect of the substitutions contemplated as part of the 2018 Reorganisation Steps Plan;
  - (iii) (if applicable) to TWUCFL by the Issuer in respect of the consideration owed by TWUCFL in respect of the substitutions contemplated as part of the 2018 Reorganisation Steps Plan; or
  - (iv) (if applicable) to TWUL by TWUCFL in connection with settling the consideration of the substitutions contemplated as part of the 2018 Reorganisation Steps Plan,
- such loans being made solely for the purpose of implementing the 2018 Reorganisation Plan;
- (e) any promissory note issued by TWUL to the Issuer or any loan made by the Issuer to TWUL in connection with the subscription of shares by TWUL in the Issuer contemplated as part of the 2018 Reorganisation Plan;
  - (f) any split, transfer, novation or assignment of any promissory note issued by TWUL to the Issuer or any loan made by the Issuer to TWUL to any Obligor or TWUCFL or TWUCFH (including any subsequent transfers, novations or assignments) contemplated as part of the 2018 Reorganisation Plan;
  - (g) the set-off or netting of a liability or other monetary obligation owed by TWUL to any Obligor or TWUCFL or TWUCFH against any liability or other monetary obligation by any Obligor or TWUCFL or TWUCFH to TWUL and any set-off or netting of liabilities or other monetary obligations between Obligors, all as contemplated by the 2018 Reorganisation Plan;
  - (h) any distribution made by TWUCFL to TWUCFH and any distribution made by TWUCFH to TWUL contemplated as part of the 2018 Reorganisation Plan;
  - (i) the release of any or all liabilities by any Obligor or TWUCFL or TWUCFH arising with respect to any action in connection with the implementation of the 2018 Reorganisation Plan (including in respect of any Substitution Proposal); and
  - (j) any action in connection with the implementation of the 2018 Reorganisation Plan (including in respect of any Substitution Proposal).

“Permitted Property Lease” means:

- (a) a lease granted in favour of TWUL pursuant to a Permitted Sale and Leaseback;
- (b) the lease in respect of Rose Kiln Court granted in favour of TWUL by Thames Water Investments Limited;
- (c) the lease in respect of Clearwater Court granted in favour of TWUL by Thames Water Investments Limited;  
or
- (d) the lease in respect of Walnut Court 1 granted in favour of TWUL by Thames Water Investments Limited.

“Permitted Reorganisation” means each of the steps referred to in paragraph (f) of the definition of Permitted Acquisition.

“Permitted Sale and Leaseback” means:

- (a) the sale by TWUL and subsequent leaseback by TWUL of the property located at Walnut Court 2; and
- (b) the sale by TWUL and subsequent leaseback by TWUL of the Property located at Spencer House.

“Permitted Security Interest” means any security interest falling under paragraphs (a) to (f) (inclusive) below which is created by any Obligor, any security interest falling under paragraphs (g) to (k) (inclusive) below which is created by TWUL or the Issuer 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 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 Drawdown Prospectus 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 main securities market of Euronext Dublin.

“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 (or, historically, prepared by or on behalf of, and approved by, TWUCFL) and/or the issue of the Bonds or any information memorandum or Prospectus prepared by or on behalf of and approved by the Issuer (or, historically, approved by TWUCFL) 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 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 (including any Registered Bonds in respect of which TWUF has been substituted in place of TWUCFL as issuer or principal debtor of such Registered Bonds) 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;

“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(l) (*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 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 “*IP Charges: collection and payment*” in Chapter 5 “*Description of the TWU Financing Group*”.

“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 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 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);
- (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 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 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 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 the Issuer respectively and the pledges dated 15 October 2007, in favour of the Security Trustee, over the shares in TWUCFH and TWUCFL respectively (which pledges, in respect of TWUCFH and TWUCFL, have been released by the Security Trustee on behalf of the Secured Creditors), 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 and as last amended and restated on 31 August 2018 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 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 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.

“Substitution Proposal” has the meaning given to such term in Clause 8.12 (Substitution of the Issuer and/or TWUF) of the STID;

“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 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, 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 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(l) (*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 and as last amended and restated on 31 August 2018.

“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 (including any Bearer Bonds in respect of which TWUF has been substituted in place of TWUCFL as issuer or principal debtor of such Bearer Bonds) 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 the Issuer 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 Bazalgette (or any permitted successor or assign of Bazalgette) are both party or any deed poll or other document under which TWUL incurs an obligation in favour of Bazalgette (or any permitted successor or assign of Bazalgette) 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 Bazalgette’s existing assets safe; (ii) in respect of any works to secure Bazalgette’s 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 Bazalgette’s 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) Bazalgette shall have no right under any agreement with TWUL to claim any sum from TWUL in respect of any of its 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 infrastructure provider to deliver the TTT Project as specified in the Project Specification Notice.

#### ***4. IP Project Licence award***

Following designation, Bazalgette 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 Bazalgette amounts other than Bazalgette'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 Bazalgette 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, TWUL, the Issuer and any other Permitted Subsidiaries.

"TWUCFL" means Thames Water Utilities Cayman Finance Limited.

"TWUCFH" means Thames Water Utilities Cayman Finance Holdings Limited.

"TWUF" means Thames Water Utilities Finance plc, 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 the Issuer 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 TWUCFL, provided that the occurrence of any of the events or circumstances in (a) or (b) above effected pursuant to the 2018 Reorganisation Plan shall not constitute a TWUL Change of Control.

“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, the Issuer, TWUCFL, 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 the Issuer 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 2020 Paper” means the paper issued by Ofwat dated May 2016 entitled “Water 2020: our regulatory approach for water and wastewater services in England and Wales”.

“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 as the context requires.

“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.

“WSSL” means water supply and/or sewerage licence.

“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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