

Prospectus dated 12 October 2023



THAMES WATER UTILITIES FINANCE PLC

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

(Legal Entity Identifier: 213800ESMPQ4RQ7G8351)

£15,000,000,000 Multicurrency programme for the issuance of Guaranteed 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 £15,000,000,000 Guaranteed 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**” or “**Thames Water**”) and Thames Water Utilities Holdings Limited (“**TWH**”), as described herein. TWUL, the Issuer and TWH are together referred to herein as the “**Obligors**”.

Application has been made to the Financial Conduct Authority (the “**FCA**”) under Part VI of the Financial Services and Markets Act 2000, as amended (“**FSMA**”) for Bonds issued under the Programme during the period of twelve months after the date hereof, to be admitted to the official list of the FCA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Bonds to be admitted to trading on the London Stock Exchange’s main market (the “**Main Market**”). Except where the context provides otherwise, references in this Prospectus to Bonds being “listed” (and all related references) mean that such Bonds have been admitted to trading on the Main Market and have been admitted to the Official List. The Main Market is a regulated market for the purposes of Article 2(1)(13A) of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended (the “**EUWA**”) (“**UK MiFIR**”). The Programme provides that Bonds will be listed on the London Stock Exchange. This Prospectus has been approved by the FCA, as competent authority under Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “**UK Prospectus Regulation**”). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of either the Obligors or the quality of the Bonds that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Bonds. The Bonds may be issued on a continuing basis to one or more of the Dealers specified under Chapter 3 “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.

For the avoidance of doubt, the Issuer may not as at the date of this Prospectus issue Wrapped Bonds pursuant to this Prospectus without issuing a drawdown prospectus.

The Bonds may be issued on a continuing basis to one or more of the Dealers specified under Chapter 3 “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 2 “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Arranger

Barclays

Certain Dealers

Bank of China
HSBC
Morgan Stanley
NatWest Markets Plc
SEB

Barclays
ICBC Standard Bank Plc
MUFG
RBC Capital Markets
SMBC Nikko
The Bank of Nova Scotia

BNP PARIBAS
Lloyds Bank Corporate Markets
National Australia Bank Limited
Santander Corporate & Investment Banking
TD Securities

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 £15,000,000,000 (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 Market, will be delivered to the FCA and the London Stock Exchange on or before the relevant date of issue of the Bonds of such Tranche.

Bonds issued by the Issuer under the Programme will be issued in series (each a “**Series**”) and in one or more of four classes (each a “**Class**”). Bonds issued by the Issuer may be issued in unwrapped form pursuant to this Prospectus without issuing a supplemental prospectus. 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 Unwrapped Bonds is expected on issue to have the following credit ratings:

| | S&P Global Ratings UK Limited (“Standard & Poor’s”) | Moody’s Investors Service Limited (“Moody’s”) |
|-------------------------|--|--|
| Class A Unwrapped Bonds | BBB (negative watch) | Baa1 (stable outlook) |
| Class B Unwrapped Bonds | BB+ (negative watch) | Ba1 (stable outlook) |

The Class A Unwrapped Bonds in issue have a rating of BBB by Standard & Poor’s and Baa1 by Moody’s. The Class B Unwrapped Bonds in issue have a rating of BB+ by Standard & Poor’s and Ba1 by Moody’s. Standard & Poor’s assigned credit watch negative to the rating of Class A Unwrapped Bonds and Class B Unwrapped Bonds on 30 June 2023. Moody’s assigned a stable outlook to the rating of Class A Unwrapped Bonds and Class B Unwrapped Bonds on 24 March 2020.

Any rating assigned to a series of Bonds will be specified in the applicable Final Terms. Moody’s and Standard & Poor’s (“**Rating Agencies**”) are established in the United Kingdom (“**UK**”) and are registered in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the “**UK CRA Regulation**”). The ratings Moody’s and Standard & Poor’s have given in relation to the Bonds are endorsed by Moody’s Deutschland GmbH and S&P Global Ratings Europe Limited respectively, both of which are

established in the European Economic Area (EEA) and registered under Regulation (EU) No 1060/2009 on credit rating agencies (as amended, the “**EU CRA Regulation**”).

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

For the avoidance of doubt, the Issuer may not as at the date of this Prospectus issue Wrapped Bonds pursuant to this Prospectus without issuing a Drawdown Prospectus. The credit ratings of any Class of 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.

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 depository 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 are to be admitted to trading on a regulated market within the UK or offered to the public in the UK or a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the UK Prospectus Regulation or the Prospectus Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”), 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.

Amounts payable under the Bonds may be calculated by reference to: (i) SONIA, which is provided by the Bank of England; (ii) EURIBOR, which is provided by the European Money Markets Institute (the “**EMMI**”); (iii) RPI, which is provided by the Office for National Statistics or the relevant successor index; (iv) CPI, which is provided by the Office for National Statistics or the relevant successor index; or (v) CPIH, which is provided by the Office for National Statistics or the relevant successor index. As at the date of this Prospectus, EMMI (as administrator for EURIBOR) appears on the register of administrators and benchmarks established and maintained by the FCA pursuant to Article 36 of the Benchmarks Regulation (Regulation (EU) 2016/1011) (the “**EU Benchmarks Regulation**”) as it forms part of domestic law by virtue of the EUWA (the “**UK Benchmarks Regulation**”).

As far as the Issuer is aware, SONIA, RPI, CPI, and CPIH do not fall within the scope of the UK Benchmarks Regulation by virtue of Article 2 of the UK Benchmarks Regulation. The registration status of any administrator under the UK Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Prospectus to reflect any change in the registration status of any administrator. In addition, the transitional provisions in Article 51 of the UK Benchmarks Regulation apply, such that EMMI is not currently required to obtain authorisation or registration under the UK Benchmarks Regulation.

If any reference rate does constitute a benchmark, the applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the FCA pursuant to Article 36 (Register of administrators and benchmarks) of the UK Benchmarks Regulation. Transitional provisions in the UK Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the applicable Final Terms.

Investors should consult their own independent advisers and make their own assessment about potential risks imposed by benchmark reforms, investigations and licensing issues in making any investment decisions with respect to Bonds linked to a “benchmark”.

Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 added a new Section 13 to the United States Bank Holding Company Act of 1956 (such section and the regulations promulgated thereunder commonly known, collectively, as the “**Volcker Rule**”). The Volcker Rule generally prohibits “banking entities” (which are broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsorship in a “covered fund” and (iii) entering into a “covered transactions” with a “covered fund”, subject to certain exceptions and exclusions. Covered transactions include (among other things) entering into a swap transaction or guaranteeing notes if the swap or the guarantee would result in a credit exposure to the covered fund.

If the Issuer is a covered fund, the Volcker Rule and its related regulatory provisions will impact the ability of banking entities to hold an “ownership interest” in it. This may adversely impact the market price and liquidity of the Bonds. Further, if a banking entity is considered the “sponsor” of the Issuer under the Volcker Rule, that banking entity may face a prohibition on covered transactions with the Issuer. This could adversely impact the ability of the banking entity to enter into new transactions with the Issuer and may require amendments to certain existing transactions and arrangements. There is limited interpretive guidance regarding the Volcker Rule, and implementation of the regulatory framework for the Volcker Rule is still evolving and regulators in the United States may promulgate further regulatory changes. The Volcker Rule’s prohibitions and lack of interpretive guidance could negatively impact the liquidity and market price of the Bonds and no assurance can be given as to the impact of any regulatory changes on the Bonds. Prospective purchasers of the Bonds should consider the potential impact of the Volcker Rule in respect of such investment and on its portfolio generally. Each purchaser must determine for itself whether it is a banking entity subject to regulation under the Volcker Rule. None of the Issuer, the Obligors, any member of the TWU Financing Group (as defined below) or the Thames Water Group (as defined below), the Arranger, the Dealers or their affiliates, the Bond Trustee, the Security Trustee, the Financial Guarantors or the Other Parties makes any representation regarding the ability of any purchaser to acquire or hold the Bonds, now or at any time in the future.

IMPORTANT NOTICE

This prospectus (“**Prospectus**”) is a prospectus for the purposes of the UK Prospectus Regulation.

This Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Bonds which are to be admitted to trading on a regulated market in the UK and/or offered to the public in the UK other than in circumstances where any exemption is available under Article 1(4) and/or 3(2) of the UK Prospectus Regulation. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.

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 the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

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.

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 London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

The contents of this website, other than copies of those documents deemed to be incorporated by reference into this Prospectus, are for information purposes only and do not form part of this Prospectus.

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).

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 or their affiliates, 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 member of the TWU Financing Group 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 at 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 on 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 or their affiliates, 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, the auditors of the Issuer and Guarantors 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 or their affiliates, 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 or their affiliates, 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 (i) Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017; and (ii) Regulation (EU) 2017/2042 as it forms part of domestic law of the UK by virtue of EUWA) 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, Equity and Debt Funding 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 IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (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 AND THE GUARANTEES IN RESPECT THEREOF 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 REGULATIONS UNDER THE SECURITIES ACT (“**REGULATION S**”)).

THE BONDS AND THE GUARANTEES IN RESPECT THEREOF 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 THE BONDS AND THE GUARANTEES IN RESPECT THEREOF AND DISTRIBUTION OF THIS PROSPECTUS SEE “*SUBSCRIPTION AND SALE*”.

THE BONDS AND THE GUARANTEES IN RESPECT THEREOF 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 THE BONDS AND THE GUARANTEES IN RESPECT THEREOF OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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 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**”); OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE (EU) 2016/97 (THE “**INSURANCE DISTRIBUTION DIRECTIVE**”), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. 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.

PROHIBITION OF SALES TO UK 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 UK. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT, AS DEFINED IN POINT (8) OF ARTICLE 2 OF REGULATION (EU) NO 2017/565 AS IT FORMS PART OF DOMESTIC LAW OF THE UNITED KINGDOM BY VIRTUE OF THE EUWA; OR (II) A CUSTOMER WITHIN THE MEANING OF THE PROVISIONS OF THE FSMA AND ANY RULES OR REGULATIONS MADE UNDER THE FSMA TO IMPLEMENT THE INSURANCE DISTRIBUTION DIRECTIVE WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT, AS

DEFINED IN POINT (8) OF ARTICLE 2(1) OF REGULATION (EU) NO 600/2014 AS IT FORMS PART OF DOMESTIC LAW OF THE UNITED KINGDOM BY VIRTUE OF THE EUWA. CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY THE PRIIPS REGULATION AS IT FORMS PART OF DOMESTIC LAW OF THE UNITED KINGDOM BY VIRTUE OF THE EUWA (THE “**UK PRIIPS REGULATION**”) FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE UK HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE UK MAY BE UNLAWFUL UNDER THE UK PRIIPS REGULATION.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET – THE FINAL TERMS OR DRAWDOWN PROSPECTUS IN RESPECT OF ANY BONDS WILL 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 DIRECTIVE 2014/65/EU (AS AMENDED, “**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 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.

UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET – THE FINAL TERMS OR DRAWDOWN PROSPECTUS IN RESPECT OF ANY BONDS WILL INCLUDE A LEGEND ENTITLED “**UK MIFIR 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 THE FCA HANDBOOK PRODUCT INTERVENTION AND PRODUCT GOVERNANCE SOURCEBOOK (THE “**UK MIFIR PRODUCT GOVERNANCE RULES**”) 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 UK MIFIR 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 UK MIFIR PRODUCT GOVERNANCE RULES.

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.

Other than in relation to the documents which are deemed to be incorporated by reference (see “*Documents Incorporated by Reference*” below), the information on the websites to which this Prospectus refers does not form part of this Prospectus, and you should not rely on them and has not been scrutinised or approved by the FCA.

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.

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 prospectus dated 24 August 2007 in connection with the Programme (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2007.pdf>);
- (ii) the Terms and Conditions of the Bonds as contained at pages 132 to 164 (inclusive) of the prospectus dated 25 July 2008 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2008.pdf>);
- (iii) the Terms and Conditions of the Bonds as contained at pages 145 to 178 (inclusive) of the prospectus dated 15 September 2009 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2009.pdf>);
- (iv) the Terms and Conditions of the Bonds as contained at pages 158 to 198 (inclusive) of the prospectus dated 15 June 2010 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2010.pdf>);
- (v) the Terms and Conditions of the Bonds as contained at pages 168 to 205 (inclusive) of the prospectus dated 24 June 2011 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2011.pdf>);
- (vi) the Terms and Conditions of the Bonds as contained at pages 142 to 180 (inclusive) of the prospectus dated 18 June 2012 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2012.pdf>);
- (vii) the Terms and Conditions of the Bonds as contained at pages 140 to 179 (inclusive) of the prospectus dated 11 March 2014 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2014.pdf>);
- (viii) the Terms and Conditions of the Bonds as contained at pages 197 to 236 (inclusive) of the prospectus dated 26 June 2015 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2015.pdf>);
- (ix) the Terms and Conditions of the Bonds as contained at pages 181 to 220 (inclusive) of the prospectus dated 16 September 2016 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2016.pdf>);
- (x) the Terms and Conditions of the Bonds as contained at pages 180 to 218 (inclusive) of the prospectus dated 10 October 2017 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2017.pdf>);
- (xi) the Deed of Variation to the Bond Trust Deed dated 31 August 2018 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/other-documents/deed-of-variation-to-the-bond-trust-deed-31-08-2018.pdf>);
- (xii) the Terms and Conditions of the Bonds as contained at pages 170 to 212 (inclusive) of the prospectus dated 9 October 2018 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2018.pdf>);

- (xiii) the Terms and Conditions of the Bonds as contained at pages 176 to 221 (inclusive) of the prospectus dated 2 April 2020 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2020.PDF>);
- (xiv) the Terms and Conditions of the Bonds as contained at pages 180 to 225 (inclusive) of the prospectus dated 2 September 2020 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/updated-prospectus-2020.pdf>);
- (xv) the Terms and Conditions of the Bonds as contained at pages 178 to 222 (inclusive) of the prospectus dated 26 October 2021 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2021.pdf>);
- (xvi) the Terms and Conditions of the Bonds as contained at pages 192 to 237 (inclusive) of the prospectus dated 4 October 2022 (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/prospectus/prospectus-2022.pdf>);
- (xvii) the audited financial statements of the Issuer for the year ended 31 March 2022 (as contained in the Issuer's annual report and financial statements (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/reports/annual-report-2021-22.pdf>)) and for the year ended 31 March 2023 (as contained in the Issuer's annual report and financial statements (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/annual-report-2022-23.pdf>));
- (xviii) the audited financial statements of TWH for the year ended 31 March 2022 (as contained in TWH's annual report and financial statements (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-holdings/annual-report-2021-22.pdf>)) and for the year ended 31 March 2023 (as contained in TWH's annual report and financial statements (<https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-holdings/annual-report-2022-23.pdf>)); and
- (xix) the audited financial statements of TWUL for the year ended 31 March 2022 (as contained at pages 127 to 201 (inclusive) of TWUL's annual report and financial statements (<https://www.thameswater.co.uk/media-library/home/about-us/investors/our-results/current-reports/thames-water-annual-and-sustainability-report-2021-22.pdf>)) and for the year ended 31 March 2023 (as contained at pages 113 to 182 (inclusive) of TWUL's financial statements (<https://www.thameswater.co.uk/media-library/home/about-us/investors/our-results/2023-reports/thames-water-annual-report-2022-23.pdf>)),

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) is incorporated by reference herein.

The auditors' report for the audited financial statements of TWUL for the years ended 31 March 2022 and 31 March 2023 can be found at:

- (i) pages 127 to 133 (inclusive), in the case of the audited financial statements of TWUL for the year ended 31 March 2022; and
- (ii) pages 113 to 120 (inclusive), in the case of the audited financial statements of TWUL for the year ended 31 March 2023.

Each Obligor will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to any of the Issuer or the other Obligors at Clearwater Court, Vastern Road, Reading, RG1 8DB.

Copies of documents deemed to be incorporated by reference in this Prospectus may be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>. The contents of this website, other than copies of those documents deemed to be incorporated by reference into this Prospectus, are for information purposes only and do not form part of this Prospectus.

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

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

PRESENTATION OF FINANCIAL INFORMATION

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The audited financial statements of TWUL and the Issuer as at and for the year ended 31 March 2022 and year ended 31 March 2023 have been prepared under International Financial Reporting Standards (“**IFRS**”) as adopted by the UK Endorsement Board.

The audited financial statements of TWH as at and for the years ended 31 March 2022 and 31 March 2023 have been prepared in accordance with the Financial Reporting Standard 101 Reduced Disclosure Framework (“**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 Market, that, if there shall occur any significant new factor, mistake or material inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Bonds whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the relevant Issuer, and the rights attaching to the Bonds, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent issue by the Issuer of Bonds and will supply to each Dealer and the Bond Trustee such number of copies of such supplement hereto or replacement prospectus as such Dealer and Bond Trustee may reasonably request. The Issuer will also supply to the FCA such number of copies of such supplement hereto or replacement prospectus as may be required by the FCA 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 this Prospectus pursuant to Article 23 of the UK Prospectus Regulation, 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 Market, shall constitute a supplemental prospectus as required by Article 23 of the UK Prospectus Regulation. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

FINAL TERMS AND DRAWDOWN PROSPECTUSES

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

Any information relating to the Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Class of Bonds will be contained in the relevant Final Terms or Drawdown Prospectus.

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

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

For a Class of Bonds which is the subject of Final Terms, those Final Terms 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 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 have the same meanings as defined in Chapter 8 “*The Bonds*”.

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|-----------------------------|---|
| Description | Guaranteed Bond Programme. |
| Programme Size | Up to £15,000,000,000 (or its equivalent in other currencies calculated as described herein) aggregate nominal amount of Bonds Outstanding at any time. |
| Issuance in Classes | <p>Bonds issued under the Programme have been and will be issued in Series, with each Series belonging to one of four Classes. The Wrapped Bonds are and will be designated as either Class A Wrapped Bonds or Class B Wrapped Bonds. The Unwrapped Bonds are and will be designated as one of Class A Unwrapped Bonds or Class B Unwrapped Bonds. Each Class comprises or will comprise one or more Sub-Classes of Bonds with each Sub-Class pertaining to, among other things, the currency, interest rate and maturity date of the relevant Sub-Class and each Sub-Class can be issued in one or more Tranches, the specific terms of each Tranche of a Sub-Class being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class.</p> <p>The specific terms of each Tranche of Bonds are and will be set out in the Final Terms or Drawdown Prospectus (as may be applicable).</p> |
| Issue Dates | 30 August 2007 (the “ Initial Issue Date ”) and thereafter, the date of issue of a Tranche of Bonds as specified in the relevant Final Terms or Drawdown Prospectus (each an “ Issue Date ”). |
| Distribution | Bonds have been and may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. |
| Certain Restrictions | <p>Each issue of Bonds, denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply, has been and will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the restrictions applicable at the date of this Prospectus. See Chapter 12 “<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 unless they are issued to a limited class of professional investors and</p> |

have a denomination of at least £100,000 or its equivalent. See Chapter 12 “*Subscription and Sale*”.

| | |
|----------------------------|--|
| Currencies | Euro, Sterling, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer. |
| Maturities | Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the Relevant Currency (as defined in the Conditions). |
| Issue Price | Bonds have been and will be issued on a fully-paid basis and may be issued at an issue price which is at par or at a discount to, or premium over, par, as specified in the relevant Final Terms or Drawdown Prospectus. |
| Interest | Bonds are and will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be interest-bearing and interest is or will be calculated (unless otherwise specified in the relevant Final Terms or Drawdown Prospectus) on the Principal Amount Outstanding (as defined in the Conditions) of such Bond. Interest accrues or will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and is or will be payable in arrear, as specified in the relevant Final Terms or Drawdown Prospectus, or on such other basis and at such rate as may be so specified. Interest is or will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be agreed between the Issuer and the relevant Dealer as specified in the relevant Final Terms or Drawdown Prospectus. |
| Form of Bonds | The Bonds in issue have been issued under the Programme in bearer form. Each further Sub-Class of Bonds will be issued in bearer or registered form as described in Chapter 8 “ <i>The Bonds</i> ”. Registered Bonds will not be exchangeable for Bearer Bonds. |
| Fixed Rate Bonds | Fixed Rate Bonds bear or will bear interest at a fixed rate of interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, as specified in the relevant Final Terms or Drawdown Prospectus. |
| Floating Rate Bonds | Floating Rate Bonds will bear interest at a rate determined: <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the Relevant Currency governed by an agreement incorporating the 2006 ISDA Definitions (each as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Sub-Class) as set out in the relevant Final Terms or Drawdown Prospectus; or |

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

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) (*Definitions*)) are and may be calculated in accordance with Condition 7 (*Indexation*) by reference to the UK Retail Price Index, 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*) ; and, failing this (b) redeem (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)) 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 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 Issuer shall only be permitted to pay Early Redemption Amounts to the extent that in so doing it will not cause an Event of Default to occur or subsist.

Denomination of Bonds

Bonds have been and will be issued in such denominations as have been or may be agreed between the Issuer and the relevant Dealer save that: (i) in the case of any Bonds which are to be admitted to trading on a regulated market within the UK or offered to the public in the UK in circumstances which require the publication of a prospectus under the UK Prospectus Regulation, 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*" 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 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.

All claims in respect of the Class A Unwrapped Bonds will rank in priority to payments of interest and principal due on all 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.

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*”.

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

The Issuer and/or TWUL have entered into various credit facilities with the Credit Facility Providers on materially similar terms (other than economic and mechanical terms), as amended, restated and supplemented or replaced from time to time, including the Existing Authorised Credit Facilities (as defined below).

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

Application has been made to admit Bonds issued under the Programme to the Official List and to admit them to trading on the Main Market.

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 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, United Kingdom 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 United Kingdom and registered under the Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the “**UK CRA Regulation**”). Each of Standard & Poor’s and Moody’s is a credit rating agency established and operating in the United Kingdom and is registered under the UK CRA Regulation. Any ratings assigned by Moody’s and/or Standard & Poor’s to any series of Bonds will be endorsed by Moody’s Deutschland GmbH and/or S&P Global Ratings Europe Limited respectively, both of which are established in the European Economic Area (EEA) and registered under the EU CRA Regulation.

As defined by S&P, a BBB rating means that the obligations of the Obligors exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the Obligors’ capacity to meet their financial commitments on the obligation.

As defined by Moody’s, a Baa1 rating means that the obligations of the Obligors are considered medium grade and are subject to moderate credit risk and as such may possess certain speculative characteristics. The modifier 1 indicates a ranking in the higher end of the ‘Baa’ generic category.

As defined by S&P, a BB+ rating means that the obligations of the Obligors are less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions. The addition of the plus (+) sign indicates a ranking at the higher end of the ‘BB’ rating category.

As defined by Moody’s, a Ba1 rating means that the obligations of the Obligors are considered to be speculative and are subject to substantial credit risk. The modifier 1 indicates a ranking in the higher end of the ‘Ba’ generic category.

As defined by Moody’s, a stable outlook means that there is a low likelihood of a rating change over the medium term.

As defined by S&P, credit watch negative means that S&P believes that there is at least a one-in-two likelihood, as a broad guideline, of a rating change or rating suspension or withdrawal

within the next 90 days. A credit watch listing, however, does not mean a rating change is inevitable.

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.

Governing Law

The Bonds in issue are, the new Bonds will be, and all non-contractual obligations arising from or in connection with any such Bonds are, or will be (as the case may be), governed by, and construed in accordance with, English law.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Bonds in the United States, the United Kingdom, the European Economic Area 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 2 RISK FACTORS

The Issuer and the other Obligors believe that the following factors may affect their ability to fulfil their obligations (including meeting financial ratios and covenants set out in the Common Terms Agreement) and ultimately 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.

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 meet their obligations under Bonds and/or the Common Terms Agreement and/or loss of market value may occur for other reasons. 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 carefully read all 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 will receive payment of interest or repayment of principal from the Issuer in respect of such 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;*
- *Financial risks*
- *Risks relating to the Bonds.*

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 and cover both wholesale and retail business 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 Chapter 5 “Description of the TWU Financing Group”.

Strategic risks

Regulatory, debt and equity funding of TWUL

TWUL operates within an economic regulatory framework whereby Ofwat sets price controls on the revenues that TWUL can raise and, together with the Environment Agency and the Drinking Water Inspectorate (each sponsored by DEFRA), monitors and enforces compliance with TWUL's Licence and service obligations. The Environment Agency and Drinking Water Inspectorate monitor and enforce compliance with TWUL's environmental obligations.

For TWUL to continue to deliver its services in broad compliance with existing and future environmental measures, targets, legislation and regulation, TWUL's management has assessed that very significant additional capital and operating expenditure is required over the remainder of AMP7, AMP8 and successive AMPs.

TWUL's financial ability to operate and maintain its business, undertake necessary investment to fulfil its regulatory obligations, refinance its debt as it falls due and procure further equity support from its shareholders is dependent upon, amongst other things, the interrelating factors of the PR24 draft determination and PR24 Final Determination, its ability to maintain regular access to the public and private debt markets for substantial debt raises, and a sufficiently investible regulatory, economic and operational proposition to attract the substantial further equity investment required.

If TWUL is not able to effectively finance and deliver the required operational and maintenance expenditure and investment programmes (whether through insufficient regulatory revenues and/or the linked ability to raise debt and equity), TWUL will face significant challenges in meeting its compliance obligations over successive AMPs and incur reputational damage, economic penalties and/or fines which would of themselves further adversely affect TWUL's ability to be able to finance its business and meet its compliance obligations.

TWUL remains under significant regulatory, public and political scrutiny. Resulting media and press speculation, such as that which arose in June 2023 following the resignation of Sarah Bentley as CEO of TWUL, or rating agency action, could of themselves affect the ability of TWUL to maintain access to debt markets or attract equity investment and hence finance its business and meet its compliance obligations.

Regulatory actions and the uncertainty as to the outcome of the PR24 process during the period from the submission of the TWUL business plan on 2 October 2023 to the Final Determination in December 2024 (or as further extended in the case of a CMA appeal process) could also affect the ability of TWUL to maintain access to debt markets or attract equity investment during (and beyond) this period and hence finance its business and meet its compliance obligations.

Given these uncertainties TWUL has undertaken prudent contingency planning to assess what options may be available to maintain services whilst seeking to restore financial resilience should this be required. Such contingency plans are carefully monitored by TWUL on a regular basis in the context of the protections provided to TWUL's Secured Creditors under the Finance Documents and the regulatory regime of Special Administration and, due to the regulated and essential service nature of TWUL's business, shared with Ofwat and Government. Where appropriate, such plans may be developed to reflect prudent governance as well as regulatory requirements and the responsibility of TWUL as a regulated entity. If any level of contingency planning is required to be implemented TWUL would review and appropriately revise its business plan to fit with the available funding, and adjust total expenditure down accordingly, this would deliver less for customers, communities and the environment.

There can be no assurance that should contingency measures beyond reducing expenditure, including measures under the Standstill regime in the STID or under a Special Administration regime, be required that these could be achieved on terms that would enable Secured Creditors to recover amounts due to them in a timely fashion,

in full or at all. For more information on the Standstill regime please see Chapter 7 (*Overview of the Financing Agreements – Security Trust and Intercreditor Deed – Standstill*).

The Kemble Shareholders provided £500 million in shareholder funding in March 2023 and further evidenced their support for TWUL through a support letter in July 2023 (which replaces the support letter entered into in June 2022) to fund, subject to conditions (see below) an additional £750 million within AMP7 and to acknowledge the possibility of further equity investment in the medium-term significantly in excess of the current shareholder commitment. Indicatively, this is expected to be in the region of £2.5 billion, but the nature and amount of such medium-term support will depend on finalisation of the business plan, the PR24 Final Determination and the regulatory framework that will apply to the AMP8 period.

The conditions to the investment of £750 million within AMP7 include: investment committee approval by each Kemble Shareholder on a several basis, not a joint and several basis; satisfactory regulatory arrangements being agreed; business plan finalisation, no lock-up, trigger event or event of default under TWUL's financings, ratings requirements aligned to the cash lock-up requirements in TWUL's licence and execution of definitive finance documentation; and no insolvency, special administration, change to position in the ring-fencing certificate, nationalisation or shareholder funding illegality. TWUL is in ongoing discussions with Ofwat and Kemble Shareholders regarding the satisfaction of these conditions, including satisfactory regulatory arrangements.

TWUL is actively working to ensure the conditions are met and carefully monitoring progress. However, there is no certainty that the conditions for the investment of £750 million within AMP7 (or any additional funding in excess of this in later AMPs) will be met. The provision of funds, including in respect of raising funds through the issuance of further shareholder funding and equity investment, could be vetoed by a shareholder or shareholders under the governance arrangements between the Kemble Shareholders. In the scenario where such conditions were not met and/or funding was not forthcoming, TWUL would consider all options available at that time and this could result in TWUL needing to revise its business plan to fit with the available funding, and adjust total expenditure down accordingly and/or consider contingency planning (as set out above). Implementing a revised business plan and/or implementing contingency planning would deliver less for customers, communities and the environment and, at that time, may result in TWUL not having available to it sufficient financial resources and facilities to enable it to fund the regulated activities necessary to fulfil in full its obligations under the Instrument of Appointment. In addition, TWUL may face credit rating agency downgrades and accordingly this may have a significant adverse impact to the debt capital market's appetite for TWUL's debt, which may result in it become increasingly challenging and/or expensive for TWUL to raise debt in the debt capital markets.

The above factors in combination or alone could affect the ability of TWUL to meet its obligations in respect of the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*).

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, suppliers, contractors, consumer and community representatives, environmental groups, 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 undermine public trust in TWUL or its management.

Scrutiny regarding the performance and financial resilience of TWUL and other water and sewerage companies at both national and local levels, increases in living costs (including water and sewerage services), extreme weather events, change of leadership and consequent discussion of gearing levels, and political and economic volatility have increased the level of media coverage of TWUL. Heightened levels of concern about discharge of untreated sewage into rivers, even where this is permitted, and in relation to financial resilience have resulted in considerable media attention and scrutiny of water companies at national and local levels. All of this may have had and may continue to have a negative impact on the public's perception of the water industry and companies within it. 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 and stakeholders 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, its financial resilience and its retail service.

These reputational risks could lead to increased governmental, political and/or regulatory intervention (including investigations by Ofwat and/or DEFRA, contingency planning, rigorous enforcement of current legislation and regulation and the enactment of new more stringent regulation and legislation). For example, in response to increasing concerns of customers and other stakeholders, Ofwat will be introducing (as part of PR24) common performance commitments for serious pollution incidents and discharge permit compliance performance commitments with the expectation that all water companies will comply by 2030. Such scenarios could adversely affect Periodic Reviews including the upcoming PR24, and regulatory relationships and increase costs and capital expenditure requirements.

In turn this could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*).

Extreme Weather

There is a risk that extreme weather conditions including freeze-thaw events, concentrated intense rainfall and prolonged periods of drought/heat, could adversely affect TWUL's operational and service performance and/or cause damage to service infrastructure assets, giving rise to increased operational costs and capital expenditure requirements, regulatory penalties, the need to pay compensation to customers or other government, political or regulatory action, including prosecution and the imposition of fines. This in turn could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*).

Uncertain Macroeconomic and Natural Environment

As at the date of this prospectus, TWUL is exposed to significant uncertainty and volatility due to concurrent macroeconomic and natural factors including energy prices, inflation (including construction prices), pandemics such as Covid-19, interest rates, currency exchange rates, and the possibility of extreme weather. The timing, volatility, unpredictability, and interaction of these factors alone and in combination creates uncertainty in forecasting and could lead to short or long term operational and financial cost pressures affecting TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*).

Energy prices

Pricing in energy markets continues to see a sustained level of elevation when compared to the periods prior to the Russia-Ukraine conflict. Whilst there has been a notable decline in prices from winter 2022, the repercussions of the conflict continue to drive significant volatility through the natural gas and power markets, which TWUL relies on for procurement. The limited supply formerly associated with Russian gas means any minor disruption or perception of such disruption has the capacity to bring about substantial and abrupt price fluctuations.

TWUL's hedging arrangements prioritise increased coverage for near term periods, reducing cover progressively across a rolling four-year period. TWUL is therefore more exposed to movements in energy prices in future years. Forward purchases executed prior to the onset of the Russia-Ukraine conflict, secured at favourable prices, have for the most part reached their expiration, leaving the majority of purchases and hedges now vulnerable to the ongoing effects of the sustained energy crisis both on a spot and forward basis.

This vulnerability further affects products with energy intensive production processes, such as chemicals, where increased costs have become a notable concern. The associated costs pressures (alone or in combination with other cost pressures) could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*).

Funding costs

In response to global inflationary pressures, central banks and other monetary authorities have begun raising interest rates and as a result, borrowing costs are generally rising for borrowers. As at the date of this Prospectus, inflation rates are expected to stay at their current high levels or may increase and it is likely that interest rates will continue to remain elevated for the foreseeable future.

In the ordinary course of running its business, TWUL requires regular access to both public and private debt markets in order to access debt funding required to maintain and invest in its business. Although the majority of TWUL's borrowing is fixed rate (or effectively fixed rate) or inflation-linked, as new debt is required to be incurred or existing debt is required to be refinanced, TWUL and the Issuer will be required to borrow money at market (and therefore increased) interest rates. The associated cost pressures (alone or in combination with other cost pressures) could affect TWUL's business, results of operations and overall financial condition, its

ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Inflation indices

TWUL's business is exposed to inflation indices in respect of revenues and costs.

TWUL's revenues are linked to inflation, however tariffs cannot be adjusted intra-year. This results in TWUL suffering from potential revenue shortfalls intra-year until tariffs can be increased the following year. Additionally, there can be no assurance that any such adjustment would reflect the true rate of inflation which TWUL experiences for the goods and services it consumes in operating its business and its exposure to index linked debt, swaps and other contracts and liabilities. Furthermore, in the context of the current cost of living crisis, TWUL may come under political or regulatory pressure not to increase tariffs in line with inflation. These factors may result in revenue timing mismatches and/or permanent shortfalls for TWUL.

TWUL faces increased cost uncertainty in respect of inflation through its exposure to index-linked debt and derivative liabilities and its capital expenditure investment programme. As of August 2023, annual CPI fell to 6.7%, from a peak of 11.1% in October 2022, but inflation still remains above historic levels. In its Monetary Policy Summary and minutes of the Monetary Policy Committee meeting published on 4 August 2023, the Bank of England predicted that CPI inflation is expected to fall to around 5% by the end of the year and then fall to the 2% target by Q2 2025. Price increases across key components of TWUL's cost base (including power and chemicals) have continued into FY24. Failure to adapt the cost base to rising inflation could result in re-prioritisation of investment and reduced service levels, impacting customer service and operational performance, which may consequently impact TWUL's business, results of operations and overall financial condition. As rates of inflation remain high, this may in certain circumstances affect TWUL's business, results of operations and overall financial condition and its ability to meet financial ratio and covenant requirements under its financings and to raise finance.

TWUL's totex allowances and revenue for the AMP7 period are both linked to CPIH and RCV is also expected to be fully linked to CPIH in AMP8. Tariffs are set in advance of each financial year. Therefore, in a period of rising inflation there may be a timing mismatch where TWUL experiences increased costs without a corresponding increase in revenue in the same period. High levels of inflation also increase the risk of under-performance in the Capex Programmes, as a result of increasing construction inflation (labour, plant, materials) and the affordability of the original cost-benchmark. This could have an adverse impact on TWUL's financial position. To the extent that TWUL experiences cost pressure significantly above the CPIH rate of inflation, this could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the Bonds issued under the Programme.

In addition, periods of high inflation could also adversely impact the ability of TWUL's customers to pay their bills, resulting in increases to the non-recoverability of customer debts which could impact its financial condition. Citizens Advice reported the number of people they supported with energy debts in the first six months of 2023 was more than 46,000, an increase on previous years. The inability to bill and subsequently recover customer debts accurately and in a timely fashion could result in a shortfall in recognised income and a consequential impact on TWUL's financial performance, cash flow and associated covenants. There may also be an increased level of bad debt, resulting in increased operating costs (increased bad debt provisioning costs

and increased collection activity). Non-recovery above the allowance made by Ofwat is a risk to TWUL and would cause its profitability to suffer.

These factors could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Financial covenants

Under the Common Terms Agreement, TWUL is subject to financial ratio tests which monitor interest cover. TWUL's interest cover test is designed to measure TWUL's ability to service its debt while maintaining the economic value of its business.

A number of operational and macroeconomic factors can influence the calculation of TWUL's ability to service its interest obligations, including the level of depreciation of TWUL's asset base, the fluctuations in interest rates, energy costs, inflation and levels of operational expenditure.

The last published levels of these financial ratios (as taken from the Compliance Certificate dated 12 July 2023 in respect of the calculation date of 31 March 2023) as against the Trigger Event thresholds are set out below:

| | 31 March 2023 | 31 March 2024 | 31 March 2025 | Trigger (min) |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| Additional Conformed Class A Adjusted ICR | 2.05 | 2.06 | 1.80 | 1.3x |
| Additional Conformed Senior Adjusted ICR | 1.60 | 1.61 | 1.29 | 1.1x |
| Additional Conformed Class A Average Adjusted ICR | 1.97 | 1.97 | 1.97 | 1.4x |
| Additional Conformed Senior Average Adjusted ICR | 1.50 | 1.50 | 1.50 | 1.2x |

As at the date of this Prospectus, no Trigger Event is continuing.

However, costs (including interest rates, energy costs, chemical costs and inflation) relating to macro-economic and geo-political factors, natural environment factors (including extreme weather events and customer payment behaviour (especially in the context of the cost-of-living crisis)) can have a significant effect on the results of these ratios and, in respect of forecast periods, TWUL must make projections in respect of these factors which require subjective determinations and forecasts. Since publication of the above information in July 2023, TWUL has continued to experience cost pressures in the areas noted above. Management is taking mitigating actions to react to this position.

Exceptional expenditure (for example, but not limited to, extreme weather events) has, under the provisions of the Common Terms Agreement, historically been disregarded for the purposes of calculating interest cover ratios. Changing accounting standards and guidance may, depending on the nature of such exceptional expenditure, affect whether such expenditure can then be shown as an exceptional item in the financial

statements of TWUL or needs to be disclosed in full in other sections of the annual report and financial statements.

TWUL is required to include in each Investors' Report supplied with each Compliance Certificate such information (financial, accounting and regulatory) as in its reasonable opinion will allow investors to relate the relevant financial covenant calculations to the most recent financial determination and the financial statements supplied with it (including any regulatory depreciation, pay-as-you-go rate/percentage, totex or RCV information and any Opex, Capex or other accounting information). See also Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Financial Covenants*).

Where TWUL is unable to comply with its obligations in respect of interest coverage, a Trigger Event or Event of Default may occur. For more information on the consequences of a Trigger Event or Event of Default under TWUL's financing facilities, please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events; Trigger Event Consequences; Events of Default*). As at the date of this prospectus, the occurrence of a Trigger Event or Event of Default is unprecedented for TWUL, and, whilst one of TWUL's peers experienced a Trigger Event on 7 July 2023, it remains to be seen how the occurrence of any such event may unfold. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Consequences of a Trigger Event include certain debt incurrence and payment restrictions on TWUL, provision of information on the Trigger Event to the Security Trustee, and the commissioning of an Independent Review to be conducted by technical advisers to the Security Trustee to examine the causes of the relevant Trigger Event and recommend appropriate corrective measures. A Trigger Event is not an Event of Default, does not lead to a Standstill Period and gives no right to Secured Creditors to take enforcement action or accelerate any Financial Indebtedness, nor would a Trigger Event restrict payments under the TWUF/TWUL Loan Agreements or the Issuer/TWUL Loan Agreements.

If an Event of Default occurs, a Standstill Period will commence where, other than in certain limited circumstances, none of the Secured Creditors will be entitled to give any instructions to the Security Trustee to take any Enforcement Action, and any monies received by TWUL or the Issuer will be applied in accordance with the cash management provisions contained in the CTA and in accordance with the Payment Priorities (see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events; Trigger Event Consequences; Events of Default*) and Chapter 7 (*Overview of the Financing Agreements – Security Trust and Intercreditor Deed – Standstill*) for further information). The occurrence of a Trigger Event or Event of Default could also have an adverse effect on TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme.

Climate change

Climate change is one of the biggest risks to the delivery of TWUL's services. Assessing and addressing climate-related risks and opportunities is a very important part of how TWUL operate and plan for the future. The continued heightening of attention to climate change, including activities by non-governmental and political organisations (including the government) as well as greater interest by the broader public, is likely to lead to additional requirements to tackle climate change. Policies and initiatives at national and international level to address the causes of climate change and mitigate impacts 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 climate resilient and low-carbon products and services. As part of TWUL's response to mitigate the causes of climate change, in 2019, TWUL made a pledge to reduce its operational net carbon emissions to zero by 2030. Since then, there have been some material changes to the assumptions used by the water sector that have a direct impact on the net zero challenge. Given these challenges, there is a risk that the original target of achieving net zero operational carbon by 2030 may no longer be achievable. Longer term plans will be required and TWUL is developing a revised plan to meet its share of the Government's sixth carbon budget to achieve net zero by 2050. Responding to the impacts of climate change is included as part of TWUL's Water Resources Management Plan and Drainage and Wastewater Management Plan which have both informed TWUL's PR24 Business Plan.

New regulations may adversely affect TWUL's operations if TWUL is unable to find economically viable, technologically deliverable as well as publicly, politically and regulatorily acceptable, solutions that avoid and/or reduce its CO₂ emissions for new and existing projects or services.

Measures to tackle loss of biodiversity and policies intended to protect local habitats may also impact TWUL's future access to water resources in areas deemed to be ecologically sensitive, which in turn could affect TWUL's wholesale business. Failure to deliver the requirements 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, including prosecution and the imposition of fines and penalties or other measures being taken against TWUL. These factors could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUL/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme.

Water shortages / population growth

TWUL's supply area, alongside the wider South East, is designated as an area of serious water stress by the Environment Agency ("EA"). Every 5 years, TWUL prepares a statutory WRMP which looks ahead to 2100 and sets out how it will continue to provide a secure and sustainable water supply for its customers, taking account of population growth, climate change, the need to provide greater resilience as well as improvements to the environment. These drivers will necessitate actions to ensure more efficient use of existing resources and development of new infrastructure projects to increase and/or improve capacity. Such projects carry long lead times, have a large financial impact and depend on funding decisions made at each future price review. Failure to plan effectively for future demand, secure media and community acceptance of strategic resource options and ensure contribution from government led initiatives to demand reduction targets could adversely affect the reputation of TWUL with stakeholders and customers, result in non-compliance with applicable regulation (including the SEMD) and prosecution and the imposition of fines and penalties (with breaches of the SEMD subject to civil penalties not exceeding 10% of company turnover) ODI penalties and other financial impacts.

TWUL engages with the EA to identify potential changes to the volume of water licensed to be abstracted, to mitigate environmental damage or to achieve sustainable levels of abstraction, and takes this into account in developing its WRMP. Abstractions are made pursuant to abstraction licences issued by the Environment Agency, the renewal of which is not guaranteed. There has been increasing scrutiny from DEFRA on abstraction licences and water abstraction reform. The Environment Act 2021 gave the EA powers to revoke or vary permanent abstraction licences without the need to pay compensation in certain circumstances. In November 2021, the EA published a new licence capping policy to meet the Water Framework Directive ("WFD") no deterioration driver under abstraction reform, signalling the need to cap all licences to either recent historical maximum and/or recent historical average levels to protect the environment from the impact of future growth in water demand. These factors mean that TWUL may incur additional costs in implementing replacement

sources and renewing its own abstraction licences, and paying increased abstraction charges to cover compensation payments to other abstractors whose licences are revoked or varied to alleviate environmental impact. For further information on TWUL's Water Resources Management Plan and regulation around abstraction licences, see Chapter 5 (*Description of the TWU Financing Group – Operations - Water abstraction & management of water resources*).

Whilst the purpose of the WRMP is to ensure TWUL can continue to provide a secure water supply to TWUL's customers, it is not able to prepare for all eventualities. During extended periods of low rainfall water supplies can become depleted, and TWUL may need to take additional actions as set out in its drought plan to continue to provide essential supplies of water. 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. TWUL also needs to be able to manage periods of prolonged heat with associated increased demand for water, and TWUL needs to be able to adequately respond to such increased demand and produce and distribute sufficient water during such exceptional demand periods. The drought over July and August in 2022 and introduction of a temporary use ban restricting water use in TWUL's region in August 2022 which lasted until November 2022 has also led to significant public, media and political scrutiny of TWUL. These circumstances may result in compensation for customers or penalties for missed performance commitment targets or fines for breaches of statutory obligations and/or regulations. TWUL's business operational performance, profitability, financial condition or key assets may also be adversely affected. These factors could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme.

Political intervention in the water sector

TWUL and the UK water industry generally continue to see a high level of scrutiny by regulators and key stakeholders, including the Government, parliamentarians and local politicians. The UK's Official Opposition, the UK Labour Party, had pledged to nationalise the UK water industry in the run up to the 2019 General Election. In 2021 their current party leader, Sir Keir Starmer, said he believed TWUL should be nationalised, although most recently in July 2023, he argued against the nationalisation of the water sector, stating that "the better route is regulation and enforcing it". The next UK general election is scheduled to be held no later than January 2025. The Government may choose a date before then to hold a General Election.

The water sector in England and Wales is subject to economic regulation by a regulator, the Water Services Regulation Authority (Ofwat), which is independent of the Government. The economic regulator's duties and powers are set out in primary legislation (the Water Industry Act 1991, as amended). As with other economic regulators, the Government may set out its strategic priorities for the sector in a 'Statement of Strategic Priorities' ("SPS"), and the economic regulator must act in accordance with this statement. This customarily happens once in each parliament. The Government issued its most recent SPS for the sector in February 2022. It was clear in this document that its priorities are to:

- protect and enhance the environment;
- deliver a resilient water sector;
- serve and protect customers; and

- use markets to deliver for customers.

In March 2023, the House of Lords Industry and Regulators Committee published its report following its inquiry into the work of Ofwat which, amongst other things, looked at Ofwat’s performance in relation to its statutory duties, the investment and approach needed to prevent storm overflow overuse, and steps that must be taken to secure future water supply.

Following responses by the Government and Ofwat in June 2023, the Industry and Regulators Committee launched a further follow-up inquiry on Ofwat, the water industry and the role of Government. The committee’s follow-up inquiry concluded in September 2023. The committee concluded that the Government should provide stronger policy direction to Ofwat, including on the trade-off between investment and bills, and argued that “continued under-investment” will have serious long-term consequences.

On 12 July 2023 the Environment, Food and Rural Affairs Committee invited key decision-makers involved with TWUL to a public hearing to explain the difficulties facing the company and the water industry more generally.

On 28 June 2022, the Office for Environmental Protection (the “OEP”) announced that it was carrying out an investigation into the roles of Ofwat, the Environment Agency and the Defra Secretary of State in the regulation of combined sewer overflows (“CSOs”) in England, after receiving a complaint alleging the regulators had failed to comply with their legal duties relating to the monitoring and enforcement of water companies’ management of sewage. On 12 September 2023, the OEP announced that, as a result of information gathered during its investigation, the OEP believes there may have been failures to comply with environmental laws by all three of the public authorities. The OEP has issued ‘information notices’ to all three public authorities setting out the details of those possible failures and they have two months to respond. This investigation, the public authorities’ response and any proposed remedial action could potentially expose TWUL to increased scrutiny from these authorities and TWUL’s stakeholders more generally as well as increased compliance and enforcement risk.

Future intervention by the Government in the water markets, or changes in governmental policy, may affect TWUL’s business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer’s ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

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. The extent of competition in the sector is very largely determined by primary legislation, given effect by Ofwat through its regulation. On the basis of primary legislation, Ofwat has taken steps to implement the statutory provisions for competition in the water supply and sewerage industry via the Water Supply and Sewerage Licensing (the “WSSL”) regime and the inset or new appointments and variations (“NAV”) regime. However, the household retail market was not highlighted as an area of focus for Ofwat’s competition activities under DEFRA’s Strategic Policy Statement published in February 2022 and there has been no recent indication from Government that it is intending to extend competition to the household retail water market.

Ofwat has also used regulatory policy and practice to introduce some competition into the water and wastewater value chain. This has included introducing the bid assessment framework for bioresources and establishing

Direct Procurement for Customers (“DPC”), creating competition for new investments for large discrete new network investment projects. In this competitive model TWUL would not own these assets but would collect the revenue enabling their costs to be recovered on behalf of the competitively appointed provider (“CAP”).

In March 2023 Ofwat published its guidance for appointees delivering DPC projects. This sets out its expectations for the commercial model applicable to DPC projects and its approval and assurance processes to support DPC projects as part of PR24.

In August 2023, Ofwat published a consultation on its proposed changes to the English new connection charging rules to support its new developer services framework. As part of PR24, Ofwat is reducing its regulation of site-specific services, namely the contestable activities in connecting new homes to the water and wastewater networks. Ofwat is planning to remove these from the price control for water (in England) and wastewater (in England and Wales). The changes to the English new connection rules aim to protect customers from abuses of market power, encourage companies to refine how they set their infrastructure charges, and enable the implementation of various environmental incentives. Ofwat’s consultation is open until late October 2023.

Increased competitive activity and the introduction of new suppliers within TWUL’s water and sewerage regions could expose TWUL to increased scrutiny. Consequently, this could increase the risk of Ofwat finding (following an investigation under the Competition Act 1998 or the Water Industry Act) that TWUL has breached one of the new requirements. This, in turn, could result in substantial fines, legal proceedings and/or have a negative impact on TWUL’s operations and reputation which may affect TWUL’s business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer’s ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Licence modifications

As further described in Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*”, TWUL needs to operate in accordance with its licence conditions. Under the WIA, licence conditions may be modified by Ofwat with or without TWUL’s consent.

The Environment Act 2021 introduced new provisions into the WIA which give Ofwat the power to modify a licence without the consent of the Regulated Company, subject to consultation and a right of veto on the part of the Secretary of State. There is, however, a process that must be followed before such a situation occurs, including that Ofwat or the Secretary of State (as applicable) must consider any representations or objections made by the existing Regulated Company and other consultees. For example, please see Risk Factor “*Compliance risks - Impact of Ofwat adopting tighter regulatory measures to achieve financial resilience*”.

The UK Secretary of State has a power to veto modifications proposed by Ofwat, within a specific timeframe. Should a modification to the licence be made, TWUL is entitled to appeal the modification to the CMA. In determining whether any 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.

Modifications could also result from a decision on a merger or market investigation reference by the CMA under the Enterprise Act if it concludes that matters under investigation in relation to water or sewage services were anti-competitive or, in certain circumstances, against the public interest.

In addition, the Secretary of State has a power to veto certain proposed modifications agreed by Ofwat and TWUL if it appears to the Secretary of State that the modifications should only be made, if at all, after a reference to the CMA.

Primary legislation can create powers for the making of modifications by Ofwat without the consent of Regulated Companies. For example, section 55 of the Water Act 2014 provides for modification of a licence where necessary and expedient as a consequence of a provision made by or under Part 1 of the Water Act 2014.

Additionally, modifications can result from a decision on a merger or market investigation reference by the CMA.

Licence modifications could have a material impact on TWUL's profitability. Any failure or perceived failure by TWUL to comply with its licence, including any 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. These factors could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme.

Periodic Review

The turnover, profitability and cash flow of TWUL are substantially influenced by the separate water, sewerage and retail price controls and the incentive arrangements established by Ofwat in its Periodic Review for out-performance / under-performance and Ofwat's assessment of delivery against those factors.

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 and/or revenue allowances to meet operating expenditure, required capital expenditure and financing cost activities to deliver TWUL's business plan. Revenue, profitability and cashflow may also be affected by the imposition of unattainable performance targets with asymmetric incentives or penalties for over or under performance. 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 of TWUL. For more information on the PR24 price determination, see Risk Factor titled "Financial risks - Price Controls".

An adverse price determination would affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

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, initiated by Ofwat, could reduce the amount of revenue which TWUL is able to charge to its customers, which could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement

and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Further details on the role of interim determinations and other risk mitigation mechanisms including Notified Items and Relevant Change of Circumstance are set out in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

Operational and infrastructure asset risks

Litigation

As described in Chapter 5 "*Description of the TWU Financing Group*", TWUL is currently defending court proceedings (served in 2020 and 2021) commenced by different groups of personal search companies ("PSCs"). These claims relate to historic fees which the PSCs claim should not have been paid. The position is replicated across other Water & Sewerage Companies in England and the claims are a collective action brought by those different groups of PSCs against the industry. The trial date has been set to commence in for the week of 6 November 2023.

As described in Chapter 5 "*Description of the TWU Financing Group*", in February 2023, TWUL received a letter before action from the law firm Leigh Day who are instructed by a client to bring collective proceedings against TWUL in the Competition Appeal Tribunal under s.47B Competition Act 1998 in relation to abuse of a dominant position. Bryan Cave Leighton Paisner ("BCLP") has sent a substantive response on behalf of TWUL to the letter before action arguing that the claim is unsound and that it is also premature in view of the EA and Ofwat investigations (also described in Chapter 5 "*Description of the TWU Financing Group*"). Leigh Day has also sent a letter before action to KWHL and said that it too will be a defendant. BCLP has also responded to this confirming that KWHL adopts the same position as TWUL. It is not yet clear when Leigh Day will formally issue the claim against TWUL and KWHL.

Furthermore, TWUL may in the future face legal proceedings or litigation under existing legislation relating to its current business operations which as at the date of this Prospectus are not known.

If any of the claims made by PSCs or Leigh Day are successful, or if any claim materialises from the collective action which is ultimately successful or if any future claim arises and is successful, these could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

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 IP Project Licence, Ofwat may take regulatory enforcement action against TWUL.

In Ofwat's report titled "*PR19 Final Determinations*", published on 16 December 2019 ("**PR19 Final Determination**"), significant penalties (Performance Commitment ET04 up to £75 million) are placed on TWUL for failure to be operationally ready to support the TTT commissioning process.

While either Bazalgette or the TTT Project could ultimately fail, at this late stage of the project with primary tunnelling complete and secondary lining in its last metres of delivery, construction risks are reduced with commissioning scheduled to start in May 2024. However, if either project fails, this could lead to TWUL suffering reputational damage, additional costs or being unable to agree an appropriate funding mechanism for any new proposal to manage release sewage discharges into the River Thames. This would impact TWUL's ability to meet its obligations under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements and consequently could have an adverse impact on the Issuer's ability to meet its obligations under the Bonds.

The project consultation and planning processes were carried out by TWUL in advance of Bazalgette's appointment. Since their appointment, Bazalgette have been principally responsible in addressing any problems during construction and engaging with stakeholders. However, 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 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.

This may lead to adverse publicity and increases in customer complaints, resulting in adverse impact on the Customer Services Incentive Mechanism (CSIM) performance and resultant regulatory penalty, due to issues for which TWUL is not responsible under contract, regulation or statute. Please refer to Chapter 5 "*Description of the TWU Financing Group*" and "*Ofwat Consultation on Proposed Condition T Licence Modification*" for further details.

Contamination of water supplies

There is a risk (including malicious) of contamination of water supplies. TWUL believes this is unlikely due to the rigorous systems, controls and mitigation plans TWUL has in place. However, in the event of a major contamination of TWUL's water supply, there is likely to be a significant adverse operational impact on TWUL and potential wider adverse economic and/or societal impacts depending on the location of the contamination. 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, TWUL's ability to meet its obligations under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements and consequently could have an adverse impact on the Issuer's ability to meet its obligations under the Bonds.

TWUL has rigorous systems in place to minimise such risk of contamination and increased operational costs which 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 £25 million of water resilience insurance in place. 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.

Sewer flooding

TWUL's sewerage systems can, on occasions in localised areas, reach full capacity, due to factors such as heavy rainfall or be impaired by a blockage reducing capacity, both of which can result in flooding. On average annually c.1000 properties suffer internal sewer flooding each year, and blockages typically account for c.80% of these incidents. However, sometimes, typically around every 5 years, major rainfall events occur such as the

event that impacted West London in July 2021, which resulted in hydraulic (capacity) internal sewer flooding to just under 1,000 properties internally compared to a typical year of flooding from hydraulic overload of around 150 properties.

Uncertainty in where and when heavy rainfall will impact or the location of a blockage means 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 AMP7 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 AMP7 Internal sewer flooding performance commitments may lead to financial penalties for TWUL under the ODIs. For example, in the reporting year 2022/23 TWUL had a regulatory target to get below 979 internal sewer floods for the year. TWUL's annual incident count amounted to 1,179 internal sewer floods. This incurred an annual underperformance penalty for the year of £6.0m (see the section entitled "*AMP7 Customer Service*" below for further details on penalties). Flooding may also lead to the imposition of fines or penalties, including for breaches of statutory obligations and/or regulations. Increase in costs could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUL/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Water service interruptions due to key site or installation disruption

Unexpected failure of, or disruption (including process safety failure, breach of protective security arrangements, 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 (including power or energy and other supply chain risks such as chemical availability), may cause material loss or damage to key operational sites, assets or services, and consequently could result in 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 and/or the imposition of fines or penalties. In addition, underperformance against the performance commitment for supply interruptions may lead to financial penalties under the ODIs.

Capital Investment

Failure by TWUL to maintain or develop its capital assets might affect TWUL's profitability or may result in a penalty being imposed on TWUL by Ofwat as well as causing reputational damage.

TWUL requires significant capital expenditure for additions to, or replacement of, plant and equipment for its water and sewerage facilities and networks. If TWUL is unable to maintain its capital assets or deliver required improvements, there is a risk of asset failure which could impact on customers, communities and the environment as well as unplanned supply interruptions to customers, as well as potential injury or fatalities of employees or members of the public as a result of such asset failure. TWUL's profitability might suffer because of engineering repair costs, social impact costs, or a need for increased capital expenditure. This could have an impact on future regulatory periods and slow down the rate of investment TWUL can make to improve the health of its assets.

Alternatively, failure to make the required investment could result in TWUL having to pay substantial penalties in relation to its operational performance commitments and suffering reputational damage.

TWUL has undertaken an internal assessment of its position on asset health to enable the appointee to factor in the costs associated with renewing its assets over the coming decades into its PR24 business plan submission. It is currently estimated that the cost to TWUL of managing its notional asset health deficit in AMP7 will be around £1.4 billion, and a further £4.3 billion to stabilise the position in AMP8. Having an asset health deficit means that it costs more to operate, repair and maintain assets and to deal with extreme weather, which also has implications for the performance of the business and ODI penalties.

Failure by TWUL to maintain its capital assets may affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Water asset health

Operational or critical asset failures, caused by both internal and external factors, can result in risks to public safety and performance issues leading to adverse effects on the security of the water supply, water quality or flooding, and may require an urgent deployment of resources to recover the situation; the costs of which are likely to be high.

Detailed condition inspections of Thames Water's service reservoirs indicate that work is required over the coming years to improve resilience of these assets that hold treated drinking water before it is put into supply. Similarly, Thames Water is monitoring the risk that its largest "trunk" water mains pose to properties if they were to burst and flood basement properties in London.

Whilst remote, the industry has experienced cryptosporidium contamination events. As Thames Water has a number of large assets, such an event could adversely impact a large number of customers, resulting in a significant supply interruption and penalties.

TWUL and the DWI are concerned about its four Large London Process Plants ("LPPs") which use slow sand filtration ("SSF") as the principal treatment process. Although SSF is an efficient process, it cannot be relied upon to consistently remove/inactivate cryptosporidium oocysts, a parasite that can cause a diarrhoeal disease if consumed in drinking water. Despite delivering on operational improvement plans, this parasite is still sometimes detected in final water samples at Thames Water's (SSF) LPPs. TWUL is making proposals as part of its PR24 business plan to install enhanced cryptosporidium protection at the two highest risk LPPs in AMP8, namely Coppermills and Hampton WTWs, and at Ashford Common and Kempton Park in AMP9. This enhanced treatment process will take the form of Ultra-violet (UV) contactors installed downstream of the SSFs to fully inactivate any oocysts which get through the existing treatment process. Inactive cryptosporidium oocysts present no public health risk to consumers.

There is also a risk that if the water asset health remains below the required regulatory performance this will trigger a penalty to TWUL through in-period financial ODIs, and increased regulatory scrutiny, which could have an adverse effect on TWUL's business, operational performance, profitability or financial condition. In AMP7, the regulated water asset health performance commitments are unplanned outages (at water treatment works) and mains repairs. These performance commitments are designed to incentivise TWUL to appropriately maintain and improve the asset health of the below ground and above ground water assets and demonstrate its

commitment to its asset stewardship responsibility. In more extreme situations TWUL could also be fined for breaches of statutory obligations to treat water and operate adequate treatment processes at all times, be held liable to third parties and/or sustain reputational damage. Failure to comply with statutory obligations is a strict liability criminal offence. Civil penalties of up to 10 per cent of TWUL's regulated turnover could be imposed, or TWUL could be prosecuted for breach.

Failure to maintain water asset health could therefore affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme.

Sewerage asset health

Operational or critical asset failures, caused by both internal and external factors, can result in performance issues leading to adverse effects on the environment or flooding and may require an urgent deployment of resources to recover the situation; the costs of which are likely to be high. A significant proportion of TWUL's sewerage system, including most of the directly managed trunk sewers and many of the rising mains (pumped), 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.

Above ground, all of TWUL's treatment sites have the potential to have an adverse impact on the environment. There is also a risk that if the sewerage asset health remains below the required regulatory performance this will trigger a penalty to TWUL through in-period financial ODIs and increased regulatory scrutiny, which could have an adverse effect on TWUL's business, operational performance, profitability or financial condition. In AMP7, the regulated sewerage asset health performance commitments are sewer collapses, sewer blockages and treatment works compliance. These performance commitments are designed to incentivise TWUL to appropriately maintain and improve the asset health of the below ground and above ground sewerage assets and demonstrate its commitment to its asset stewardship responsibility. In more extreme situations TWUL could also be fined for breaches of statutory obligations. Failure to comply with statutory obligations is a strict liability criminal offence. Civil penalties of up to 10 per cent of TWUL's regulated turnover could be imposed, or TWUL could be prosecuted for breach. TWUL could also be held liable to third parties and/or sustain reputational damage.

Failure to maintain sewerage asset health could therefore affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme.

Storm Overflows

Most sewerage systems have historically been designed to overflow into watercourses under storm or emergency conditions. After an industry-wide programme to monitor installations in AMP6 to detect when and how frequently these overflows operate, the data is suggesting a significant number (approximately one third) operate more frequently than is currently considered acceptable. The industry is currently delivering a programme to install additional flow monitors at sewage treatment works – these will record when wastewater is being diverted into storm tanks and if sites are treating sufficient flow before this occurs (or before discharges of untreated wastewater occur for sites without storm tanks). This may identify sites that are non-compliant with their permits (for example, where sites may have allowed sewage to be discharged into rivers before the

permitted flow to full treatment is achieved). In addition, under the PR24 Final Methodology, companies will be penalised if they do not fully monitor all storm overflows. This increased monitoring may identify sites that are non-compliant with their permits. Non-compliance with permits is a strict liability offence which can result in prosecution and the imposition of financial penalties, see Chapter 2 (*Compliance risks– Environmental pollution offences*).

In August 2022, the Government published the “Storm overflows discharge reduction plan” which set water companies new targets to reduce all storm overflows. As part of this plan, by 2035, water companies are required to improve all storm overflows discharging into or near every designated bathing water sites and improve 75% of overflows discharging into high priority nature sites. By 2050, no storm overflows will be permitted to operate, save in the event of unusually heavy rainfall, or to cause any adverse ecological harm.

In June 2023 and following a consultation as to the storm overflows performance commitment definition for PR24 launched in May 2023, Ofwat published measures that will penalise companies that do not fully monitor storm overflows. Where a storm overflow is not monitored, or a monitor is not functioning correctly, Ofwat will assume that the overflow has spilled 100 times each year when calculating a company’s performance against its performance commitments.

Additional costs for complying with bringing storm overflows to acceptable levels could affect TWUL’s business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer’s ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*). Please see the description of the new provisions introduced by the Environment Act 2021 in relation to storm overflows as described in Chapter 6, “*Regulation of the Water and Wastewater Industry in England and Wales*”.

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, including fire and explosion risks relating to digesters and biogas in waste treatment could result in personal injury, loss of life, pollution or environmental damage, severe damage to or destruction of TWUL’s operational assets, health and safety offences (see “*Compliance Risks – Health & Safety Offences*”) and cause brand or reputational harm, or loss of confidence in TWUL by its stakeholders. 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 TWUL’s business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer’s ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*).

Although the CTA requires TWUL to maintain 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.

Performance of third parties for certain contracts and services

TWUL has entered into various commercial contracts and relationships 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 (including vulnerabilities as a result of various supply chain disruptions globally as an outcome of a global pandemic such as Covid-19 or from the Russia-Ukraine conflict), 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, which could ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. This is mitigated through a supplier management programme and robust procurement to ensure that appropriate suppliers are selected and managed through the contract lifecycle.

Critical Supplies

The recent global economic and political landscape has been challenging. A combination of post-Brexit and post-Covid economics along with the Russia-Ukraine conflict have impacted, and will continue to impact, the market. These uncertainties 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 "*Risks relating to the Bonds — Rating of the Bonds*".

In addition, TWUL has historically 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, and in particular the EIB is not expected to renew funding, which could have a negative impact on TWUL's ability to fund its activities and on the cost of that funding. TWUL notes there has been no impact on existing EIB funding arrangements.

From a commercial perspective, in current supply markets the biggest risk TWUL currently faces is around the sourcing of raw material and product shortages alongside inflation risks due to historically high energy and fuel costs and wage inflation across a number of markets. These risks are particularly prevalent in direct energy procurement costs but also in markets where energy is a high proportion of the input costs (such as chemicals or steel). Whilst this impact will feed through into prices, TWUL has a number of fixed price arrangements in place which mitigates some of this exposure in the short to mid-term. However, continued and significant inflation growth has the potential to feed through into long term bid prices. For further information see risk factor titled "*Strategic Risks - Energy Prices*" above.

Risk of supply chain disruption to the semi-conductor market still exists with any geo-political issues in Taiwan likely to cause global disruption to supply. This would likely decrease the supply of smart meters, new vehicles and other electronics based products.

Additionally, there are a limited number of providers for some core chemical products which are essential to TWUL's waste and/or water processes. The failure of these suppliers would have an operational impact and likely will require that supply be moved to Europe at a significant cost premium to UK pricing. Imports into the UK post Brexit have largely transpired well, largely due to the Government imposing little in the way of import checks. A change in this regime may create further import friction and product delays or shortages.

Difficulties in or additional costs required for sourcing and/or procuring energy, raw material and other products used in TWUL's business could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise

finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*).

AMP7 Customer service

Customer service is a high priority for TWUL. During AMP6 Ofwat measured TWUL's household customer service through the Service Incentive Mechanism (SIM), which compared performance across the industry. TWUL's performance improved during AMP6, however this improvement did not have a major impact on TWUL's league table position. TWUL incurred a penalty of £102.8 million (2017-18 FYA CPIH deflated price base) in total over the AMP6 period.

In AMP7, Ofwat has changed its method, replacing SIM with two measures of experience, C-MeX for customers and D-MeX for developers. C-MeX and D-MeX compare performance across the industry, where each Regulated Company's performance is compared to other companies rather than against an absolute performance level. C-MeX and D-MeX have in-period financial ODIs and are based on customer surveys (and other service metrics in the case of D-MeX). For the first three years of AMP7 TWUL has been ranked at the bottom of the C-MeX league table in 17th place and so has incurred penalties each year, with the 2022/23 penalty being £13.1 million.

Customer satisfaction may decline if customers experience poor customer service levels (for example delays on delivery of major projects or new developments), or if it is perceived that TWUL is failing to provide value for money, or 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.

In Ofwat's PR24 Final Methodology, Ofwat has introduced a new performance commitment covering satisfaction for Non-Household ("NHH") customers and retailers – BR-MeX.

BR-MeX is a combination of:

- R-MeX – the measure of NHH retailer satisfaction (i.e. how satisfied NHH retailers are with the service they receive from wholesalers). This measure exists today, but not as a performance commitment;
- B-MeX – the measure of NHH customer satisfaction (i.e. how satisfied NHH customers are with the service they receive from wholesalers). This measure is similar to the operational aspects C-MeX, but does not currently exist; and
- Market Performance Framework ("MPF") metrics – the MPF sets out the key measures within the NHH Retail market (such as data quality). The MPF is currently being reviewed within a programme led by the market operator (MOSL) prior to any necessary Code changes (Ofwat). BR-MeX proposes to use a subset of Wholesaler MPF metrics (not yet agreed) alongside B-MeX and R-MeX.

Ofwat have indicated that the new BR-MeX measure will carry financial risk / reward of -1.0% to +0.5% of wholesale revenue collected from business customers (equivalent to c -£6m to +£3m pa risk / reward). Ofwat has set up a working group to develop the design of BR-MeX and will pilot all aspects of the B-MeX and R-MeX surveys in 2023-2024, followed by a shadow run in spring 2024 to ensure the incentive mechanism is robust for implementation and commencement from April 2025.

In May 2023, Ofwat launched a consultation on its proposal to introduce a customer-focused condition in each water company's licence. This consultation closed on 7 July 2023 and Ofwat has yet to publish its response. Ofwat is expected to carry out a statutory consultation under the WIA 1991 which is expected to take place later in 2023 and implement its decision in the first half of 2024. Until the methodology for this new condition is confirmed, the scale of the risk cannot be quantified. Ofwat has proposed that failure to satisfy the new licence conditions could lead to investigation and fines of up to 10% of company turnover and the revoking of licence.

Loss of data or interruptions to key business systems

Loss or misuse of data, or interruptions to key business and operational systems could have an adverse impact on the availability or integrity of critical national infrastructure and TWUL's operational assets. This could also result in breaches of applicable legislation, including, but not limited to, data protection and information systems security, which could lead to significant penalties that could have an adverse impact on TWUL's financial condition and/or reputation.

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 to assure financial, customer service performance metrics. Prolonged information system or operational technology outage could result in disruption to TWUL's corporate, operational and customer systems and services.

The volume and complexity of cyber security threats are increasing and constantly evolving. It is therefore not certain that TWUL's control measures will be sufficient to prevent, respond to or recover from all possible breaches. For certain systems and networks, TWUL relies on third-party hardware, software and service providers, which are not entirely under TWUL's control. There is a risk that a security breach could lead to a loss or theft of customer, employee, supplier or TWUL confidential data. A major data security breach could lead to significant reputational damage and result in regulatory intervention and/or substantial fines, especially considering the implementation of the General Data Protection Regulation (Regulation (EU) 2016/679) as it forms part of domestic law by virtue of the EUWA regarding the protection of natural persons with respect to the processing of personal data and on the free movement of such data.

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.

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 Totex programme (i.e. its combined Opex and Capex investment programme) 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 cost sharing mechanism, as a result of unplanned expenditure over and above the plan, required to prevent failure. In addition, poor performance could result in regulatory investigations regarding potential breaches of TWUL's instrument of appointment, the WIA or the Competition Act 1998. If a finding of a breach was made, this could result in the imposition of financial penalties of up to 10 per cent. of TWUL's regulated turnover. TWUL's reputation may also be adversely affected as a result of a formal investigation by Ofwat or other industry regulators.

If TWUL is unable to secure full funding in AMP8 which it believes is necessary to ensure TWUL can continue to manage performance and compliance risks to the extent there is a shortfall, the company will need to take steps to direct resources to mitigate these risks. However, as a consequence, the company will be more likely to be exposed to increased scrutiny and exposure to the possibilities of fine and investigations.

The wholesale businesses have been set Totex allowances for AMP7. Under the regulatory framework, TWUL faces a proportion of the risk from any Totex overspend against these allowances. Additionally, for the retail business and bio-resources, TWUL faces full exposure to cost overspend or underspend against the allowed costs for AMP7. TWUL's current business plan contemplates significant additional investment beyond such allowances (see Chapter 5 "*Description of the TWU Financing Group*" for further details). 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. Changes to Totex that affect operational performance may lead to an increased risk that TWUL will not be able to deliver its performance commitments, thereby affecting revenues.

Failure by TWUL to deliver the turnaround plan

TWUL's refocused turnaround plan to be delivered over the next three years is dependent on delivery of initiatives to deliver targeted outcomes for customer, environmental and financial performance, with improved resilience, supported by development of strong, enduring foundational capabilities to underpin the future sustainability of the business beyond the turnaround period (see section entitled "*Refocused Turnaround*" in Chapter 5). This is supported by £2 billion of additional expenditure over and above TWUL's final determination for 1 April 2020 to 31 March 2025. Failure to deliver the turnaround plan, or if Totex expenditure is higher than current forecast expenditure, could impact the ability to deliver targeted business plan outputs and operational performance outcomes leading to an adverse effect on TWUL's business, profitability, financial covenant headroom or financial condition.

Labour disputes

Labour disputes, such as strikes, walkouts, claims or other industrial action may disrupt TWUL's 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.

TWUL operates within a Trade Union Partnership Agreement comprising three different unions. There is a general risk that employee engagement may decrease and industrial relations could worsen as a result of changes to employment terms and conditions, employment related court decisions and as a response to a wider climate of trade union disputes. Across the trade union movement, there is an increasing propensity for strike action, including in the public sector, which the company is monitoring closely.

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 "*Licences –*

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

The Secretary of State and Ofwat have rights under the WIA to appoint a Special Administrator in certain circumstances in respect of TWUL and its business. The appointment of a Special Administrator effectively places a moratorium upon any holder of security from enforcing that security (see the section “*Compliance risks – 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 “*Licences - 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) as it forms part of domestic law by virtue of the EUWA, would require consultation with Ofwat and would be reviewable by the CMA.

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

Compliance risks

Environmental considerations

TWUL’s water supply and sewerage operations are subject to a significant number of 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. This risk is increased by virtue of the ongoing and separate EA and Ofwat investigation into water and sewerage companies, pursuant to which Ofwat has issued a number of water and wastewater companies with formal notices to gather further information for enforcement purposes, as well as the new provisions introduced by the Environment Act 2021 in relation to storm overflows and the recommendations made by the Environmental Audit Committee inquiry in their report published on 13 January 2022 on water quality in rivers (and the response of the Government) as described in Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*”. On 8 December 2022, DEFRA published legally binding targets to protect the environment pursuant to the Environment Act 2021. These targets include cutting water pollution and are one of the latest of a series of environmental measures reflecting increasing social and political concern about the environment.

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. Environmental legislation imposes strict obligations on those who manage waste and there are few defences for non-compliance. In addition, in relation to some offences, there is no statutory defence where a discharge or pollution event has occurred. This could materially and adversely affect TWUL’s reputation and/or financial position and consequently, adversely impact the Issuer’s ability to meet its obligations (including the payment of principal and interest) under the Bonds.

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/disposals may take place (whether into controlled waters or onto land) as a result of failures in TWUL’s operational wastewater collection, treatment and/or recycling, or blockages and failures on the waste network.

Such discharges may constitute criminal offences under UK environmental legislation (including, for example, the Environmental Permitting Regulations (England and Wales) 2016, the Control of Pollution (Amendment) Act 1989, Waste (England and Wales) Regulations 2011 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 EA and attract significant fines. Environmental legislation imposes strict obligations on those who manage waste and there are few defences for non-compliance. In addition, in relation to some offences, there is no statutory defence where a discharge or pollution event has occurred.

Following the implementation of the sentencing council definitive 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 significant fines for pollution offences for very large organisations. These are routinely in excess of £1 million per incident. The guidelines do not provide for any limit on the fine that can be imposed and the levels of fines for Very Large Organisations (as defined in the sentencing guidelines) can be difficult to predict. The Court of Appeal has ruled that a fine matching 100% of

an organisation's pre-tax profit may not be considered to be manifestly excessive. While the current guidelines remain in place, the Environmental Audit Committee, a cross-party committee of MPs responsible for the 2021 inquiry into river water quality, has called for their review as part of their report issued in January 2022. The Government response to the report was published in May 2022, and stated that the sentencing council will consider the recommendation in due course, and any changes to the sentencing guidelines would be subject to public consultation. In a number of public statements, the EA has called for increased fines for environmental offences and even prison sentences and disqualification orders for directors. It has also indicated that in future enforcement cases, it wishes to move to a greater number of prosecutions as opposed to using its civil sanctions powers and a consultation on how the EA would determine any increased levels of fines is currently taking place. Following a public consultation launched in April 2023, on 12 July 2023, the Government announced plans to strengthen the maximum civil sanctions imposable for environmental offences. As part of the proposed amendments, the current cap of £250,000 on the fines which the EA can impose on operators will be lifted. Variable monetary penalties will also be able to be levied for offences committed under the Environmental Permitting (England and Wales) Regulations 2016. These changes will apply to England only, as outlined in the public consultation, and will apply to all operators who commit offences after the changes come into force, which is expected to be 1 December 2023.

In August 2023, the EA issued a statutory consultation (which closes on 8 October) on the amendments to its Enforcement and Sanctions Policy including details of when penalties are to be used, how they will operate alongside other remedies available to the EA (e.g. prosecution through the courts), how penalties will be calculated and the appeals process. These developments could lead to an increase in the levels of fines and penalties levied on operators.

The Environment Agency investigation titled "Operation Standard" formally commenced in November 2021. Since December 2021, formal information requests have been received from the Environment Agency under s108 Environment Act 1995 in relation to the vast majority of TWUL's sites in relation to discharges from storm infrastructure and adherence to environmental permits. TWUL has received a number of formal information requests from the EA to share event duration monitoring, flow data/inlet flow and other kinds of data in relation to its sewage treatment sites, all of which have been responded to. The EA has also indicated that information TWUL had provided to it from May 2021 is being considered as part of this investigation. On 23 June 2023, the Environment Agency published an update on its investigation. The Environment Agency's initial assessment indicates that there may have been widespread and serious non-compliance of environmental permit conditions by all water companies. Throughout the coming months, the Environment Agency will conduct site visits to wastewater treatment works with specialist investigators. The purpose of these visits will be to secure and preserve evidence relevant to its inquiry.

In Ofwat's parallel investigation, in November 2021, Ofwat's then acting Chief Executive published an open letter to all water and sewerage company CEOs regarding company compliance with environmental permits and made a number of requests for information which TWUL complied with. The Ofwat letter stated that Ofwat would consider enforcement action for failure to comply with permit conditions and specifically mentions the WIA 1991 drainage duties and the requirement in licences to have sufficient financial resources, management resources and systems of planning and internal control (including management oversight) to carry out regulated activities. In March 2022, Ofwat served a notice on TWUL under section 203 Water Industry Act 1991. The notice contained a number of questions regarding the operation of TWUL's sewage treatment sites. TWUL responded to these questions in April 2022 as well as a number of follow up questions, and continues to be in discussion with Ofwat. Ofwat has now opened enforcement cases into six water companies, noting that it will keep its enforcement cases "under review" and that the "companies in focus may change as new information comes to light". According to Ofwat's press release PN 24/22 dated 28 June 2022, TWUL is one of six water and wastewater companies being targeted by Ofwat in the next stage of its wastewater treatment works investigation. On 21 November 2022 Ofwat's Chief Executive David Black wrote to customers on the progress

of the Ofwat investigation, indicating that Ofwat is “scrutinising all the evidence” and are monitoring water companies’ plans to reduce sewage discharges, and from 2025, have proposed compulsory annual targets for further improvement.

On 22 March 2023, the House of Lords Industry and Regulators Committee published a report on its inquiry into the work of Ofwat. Its key findings included that Ofwat and the Environment Agency must go further to hold water companies to account for environmental pollution through penalties and prosecution and that water companies have been overly focused on maximising financial returns at the expense of the environment, operational performance and financial sustainability.

Fines can be up to 10% of annual turnover for civil cases (pending the Government’s amendments to the civil penalties as described above), or unlimited in criminal proceedings. These investigations are progressing but it may be several months, or (in the case of the EA investigations) possibly a number of years, before there is an outcome.

The implementation of fines and penalties for environmental pollution offences, and the significant public, media and political scrutiny of TWUL as a result of the investigations, could affect TWUL’s business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Environmental Quality Standards

TWUL is subject to the Environmental Quality Standards referred to in the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017. The EA has requested that TWUL be fully compliant with the Water Framework Directive by the end of AMP8. TWUL are engaging with DEFRA and the EA around a phased transition to this requirement, but may be required to take all necessary steps to achieve this to ensure compliance. This would represent a very significant investment for TWUL if it is required to take such action and, to the extent that TWUL is unable to secure sufficient funding for such projects under PR24, could have a negative impact on the financial condition of TWUL.

Environmental Permitting

TWUL is subject to environmental permitting requirements including under the requirements of IED and the Medium Combustion Plant Directive as they apply in UK legislation following Brexit. This means that certain of TWUL’s assets require, or will require, an environmental permit to operate where they would not have previously. To ensure compliance TWUL will, or may, incur costs in applying for relevant environmental permits during AMP7. The EA has requested that subsequent improvement conditions (including capital costs) and those related to ensuring ongoing compliance with the conditions of those environmental permits are achieved by the end of AMP7. TWUL is engaging with DEFRA and the EA around a phased transition to meeting this obligation but may be required to take all necessary steps to achieve this. This will likely represent a significant investment for TWUL that was not fully accounted for through the 2019 price review. Any significant unplanned cost incurred to ensure ongoing compliance with environmental permitting requirements could affect TWUL’s business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

TWUL supports the objectives of the IED. However, it cannot commit to meeting all of the requirements set out in the ‘Appropriate Measures’ guidance (issued in September 2022) by December 2024. The highly prescriptive approach set out in the Environment Agency’s guidance goes far beyond the original ‘Best Available Techniques’ requirements to achieve compliance. This is a significant change to the assumptions made in 2019, the potential cost and construction activity needed is now far more extensive than expected, and at a time of skilled resource and supply chain challenges. A programme of this nature will need to be delivered over more than one AMP, especially when considering the requirement to maintain overall treatment capacity during construction activity and the wide range of other infrastructure improvements that will be required in AMP8. TWUL’s plan for AMP8 reflects the original Best Available Techniques requirements, an approach TWUL believes recent guidance from Ofwat supports, and will allow TWUL to invest in new operational procedures to align to permit conditions and conduct monitoring and risk assessments to understand the risk of emissions, which goes some way to implementing the ‘Appropriate Measures’ guidance.

In addition, pursuant to requirements under existing permits, TWUL is obliged to comply with its Water Industry National Environmental Programme (“**WINEP**”). Due to deliverability and funding constraints, and increased complexity and cost of delivering the schemes relative to the modelled allowances in the PR19 Final Determination, TWUL will be unable to comply with all the requirements in respect of the AMP7 WINEP during AMP7 but outputs will be prioritised for completion in AMP8. TWUL will also need to prioritise certain aspects of the AMP8 WINEP and may be unable to complete such programme in full until a later AMP. TWUL will therefore be unable to fully comply with existing permits. TWUL is in the process of engaging with its regulators on its proposed approach, which it will keep under review.

Failure to obtain an environmental permit where required and/or comply with the terms of any environmental permit granted may result in enforcement action, including prosecution and the imposition of fines and penalties. For more information on the potential enforcement action in the context of breach of permits, please see above at (*Environmental pollution offences*).

Performance, commitments and incentives

For AMP7, TWUL agreed to 55 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. This includes three performance commitments agreed in November 2022 as part of Ofwat’s approval of TWUL’s LWI conditional allowance. 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.

During 2022/23, TWUL’s operational performance was significantly affected by the extreme drought in the summer of 2022 and a major freeze thaw event in December 2022. In addition, performance was undermined by a number of large operational events which highlighted the underlying fragility of some of TWUL’s assets and the need for investment to better manage the impact of climate change and population growth. The company delivered 26 of its 52 performance commitments and will therefore receive a net ODI penalty (excluding C-MeX and D-MeX) of £82.3 million. TWUL is not currently fully compliant with the Ofwat common methodology for leakage, per capita consumption and supply interruptions. TWUL is taking steps to become compliant, including but not limited to regular monitoring and reporting to senior management, increasing the installation of smart meters and analysing the data generated, and moving to new household billing systems, and currently expects to be largely compliant by 2023/2024. Due to the exceptionally hot and dry summer in 2022 and long term asset health resilience issue concerns, TWUL has seen significant increases in burst water mains and associated leakage during 2022/23. As a consequence, TWUL missed the target for 2022/23. TWUL remains committed to its leakage target of reducing leakage by 20.5% over the course of AMP 7 and has put in place additional resource and implemented heightened governance around leakage management to oversee its

recovery plan. Additionally, TWUL is waiting for the EA's final approval for some schemes against environmental measures delivered ("ES02"). TWUL's 2022/23 year end position on ES02 includes 4 schemes which have been internally verified as 'complete' and which have been submitted to the EA for final approval. In the unlikely event that these 4 schemes are not approved, TWUL would expect a ODI penalty of c.£0.1m. Please see Chapter 5 (*Description of the TWU Financing Group – TWUL – Water Distribution*) for further information.

In 2022/23, TWUL's C-MeX score ranked 17th in the industry despite a 28% reduction in household complaints, with a penalty of £13.1m. TWUL is making key improvements to improve its complaints performance by (i) insourcing all inbound customer service activity; (ii) continuing to grow its existing social and Watersure tariffs; and (iii) ongoing process improvements by its operational case management teams, including new ways of working in water and waste, alongside proactive case management for the journeys with the greatest impact for its customers. TWUL's D-MeX score improved over last year but fell to 16th in the industry ranking, with a penalty of £5.7m.

TWUL has outperformed a number of financial performance commitments in 2022/23 with c.£3.6m rewards from outperformances in sewer collapse, reducing risk of lead, renewable energy, empty business properties and empty household properties. The company has also increased its support for vulnerable customers: with support through social tariffs and 6% of households being helped through priority services register.

The ODI forecast for AMP7 period as reported in APR 2022/23, is about £275m net penalty, excluding C-Mex & D-MeX.

According to Ofwat's press release PN 36/22 dated 15 November 2022, Ofwat has confirmed in its final determination that TWUL will be required to reduce customer bills in 2023/24 by £51million because of missed targets on areas such as water supply interruptions, pollution incidents and internal sewer flooding. On 26 September 2023, Ofwat published a draft determination of TWUL's in period ODI outcomes for 2022/23 (including C-MeX & D-MeX) and calculated that TWUL will be required to reduce customer bills in 2024/25 by £100.719 million.

Financial penalties could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Health & Safety offences

In February 2016, new sentencing guidelines came in for Health & Safety Offences. These involve an analysis of culpability, harm (including consideration of the harm risked and likelihood of harm arising) and the sentencing also reflects the turnover for business offenders. The sentencing guidelines do not impose any limit on the level of fine and the courts have unlimited powers. Fines for Very Large Organisations (as defined in the sentencing guidelines) like TWUL, can extend into millions of pounds in the most serious of cases.

Potential financial penalties could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more

information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Breach of Licence Conditions

TWUL is committed to complying with the regulatory framework within which it operates.

A failure by TWUL to comply with its Licence or certain statutory duties (including in relation to the new non-household retail obligations with regard to fair treatment of customers and licensed water suppliers) may result in an Enforcement Order and/or the imposition of financial penalties of up to 10 per cent of TWUL's regulated turnover. The 10 per cent limit applies to each breach for which a penalty is imposed, rather than representing a cumulative limit for a financial year. The imposition of such financial penalties 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.

TWUL is currently under investigation by the EA regarding compliance with its environmental permits at wastewater treatment works and by Ofwat with regard to its potential non-compliance with its flow to full treatment permit requirements and Section 94 of the Water Industry Act 1991 in relation to how TWUL manages its wastewater treatment works (see section titled "*Environmental pollution offences*" above for further details of this investigation). Any adverse finding from such investigations could lead to fines and penalties, which could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

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/or 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 EA, DWI and other regulators, could have an adverse effect on the business, operational performance, profitability or financial condition of TWUL.

RCV

In December 2019 Ofwat published its Final Determination for the period 1 April 2020 to 31 March 2025 ("**AMP7**"). This specifies the Regulatory Capital Value ("**RCV**") for TWUL for the period, including an allocation of the RCV to each of the five wholesale price controls (Water resources, Water network plus, Wastewater network plus, Bioresources and Thames Tideway Tunnel).

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.

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. There is, however, a process that must be followed before such a situation occurs, including that Ofwat or the Secretary of State (as applicable) must consider any representations or objections made by the existing Regulated Company and other consultees.

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 WSSL regime, nor is there any precedent for such Regulated Companies to indicate the extent to which creditors' interests would be protected.

The termination, non-renewal or transfer of the Licence could affect TWUL's business and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme.

Special Administration

In certain circumstances (for example, where TWUL is in breach of its principal duties under the WIA 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.

On 22 March 2023, the House of Lords Industry and Regulators Committee published a report on its inquiry into the work of Ofwat. The Committee recommended that Ofwat be more proactive in using its special administration powers to change the management of continued poor performers in the sector.

The Government and Ofwat responded to this report in June 2023. On the Committee's recommendation that Ofwat should consider being more proactive in the use of its Special Administration powers, Ofwat acknowledged that where appropriate it would do so, in particular where this would best enable it to fulfil its various duties. Ofwat also acknowledged that it has a role in working with companies to support them in pursuing alternatives to special administration where this is in the long-term interests of customers. This does not, however, mean maintaining an inefficient company that would otherwise fail. Meanwhile, the Government reiterated that Special Administration is the ultimate enforcement tool and should only be utilised where appropriate and where other means are inadequate. The Government also acknowledged that Ofwat is expected to allow funding for water companies to fulfil their statutory duties.

Following the responses by the Government and Ofwat, the Committee took further evidence from Ofwat in July 2023. Regarding whether it would be more proactive in the use of its Special Administration powers (as indicated in its response to the Committee's earlier report), Ofwat stressed that whilst special administration was a potential remedy, the barriers to its use were rightly high. Putting in place new owners does not, in and of itself, necessarily change things. If existing owners are willing to put more money in and there is a viable

turnaround plan, then that is also an option. The Committee also considered the increased investment necessary to ensure future water supplies and improve the sector's environmental performance.

On 12 July 2023, the Environment, Food and Rural Affairs Committee invited key decision-makers involved with Thames Water to a public hearing to explain the difficulties facing the company and the water sector. The Committee discussed the use of Special Administration powers and noted that it was ultimately a decision for the Secretary of State to ask the High Court to put a company into Special Administration. The Committee noted that the bar to satisfy the need for Special Administration was high and that TWUL was not close to meeting this bar. Special Administration is not a form of nationalisation but rather a tool to ensure continuity of service to allow the affected company to be transferred as a going concern to new owners. The role of a Special Administrator would be to work with both the company and investors to protect taxpayers' interests.

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.

Material Uncertainty Related to Going Concern

Other than liabilities incurred under the Finance Documents, TWH's only material liabilities relate to Subordinated Debt owed to its parent TWUL as the Initial Subordinated Creditor.

Pursuant to the STID, TWUL as the Initial Subordinated Creditor has agreed that such Subordinated Debt shall be a subordinated obligation of TWH, and in particular TWH shall only be permitted to make payments under the Subordinated Debt to the extent permitted by the Finance Documents and if on any date TWH is unable to pay any amount due and payable, such amount shall be deferred and shall not be due and payable on such date and shall only be payable when TWH has sufficient funds to make such payment.

In addition to the protection in respect of Subordinated Debt, TWH obtained a letter of comfort from the directors of the Parent stating that they will not seek repayment of the principal or interest owed to it under such intercompany loans for at least 12 months from the date of signing of the TWH annual report and financial statements for the year ended 31 March 2023 (being 14 July 2023). As such, the amounts owed under this Intercompany Loan have been classified as non-current liabilities in the financial statements of TWH.

TWH has also obtained a letter of support from its ultimate parent company, Kemble Water Holdings Limited (“KWHL”) whereby KWHL agreed to provide adequate financial support to TWH to allow TWH to continue trading and to meet its liabilities as they fall due for a minimum of the next twelve months from the date of signing of the TWH annual report and financial statements for the year ended 31 March 2023 (being 14 July 2023). As at the date of approval of the financial statements for TWH for the period ended 31 March 2023, there was a material uncertainty relating to going concern in the financial statements of KWHL for the same period. Despite the limited and subordinated nature of TWH’s liabilities, this in turn created a material uncertainty for TWH as it is uncertain as to whether KWHL would be able to honour the letter of support provided. TWH therefore prepared their financial statements for the period ending 31 March 2023 on the basis of going concern with material uncertainty.

However, notwithstanding the limited and subordinated nature of TWH’s liabilities, should an unforeseen scenario materialise where TWH had no resources in which to meet its liabilities as they fell due (and hence required the assistance under the letter of support) and KWHL were unable to honour the request, this could result in TWH being unable to operate as a going concern, which may lead to an Event of Default under TWUL’s financing facilities. For more information on the funding strategy of TWUL, (see “*Strategic Risks - Regulatory, debt and equity funding of TWUL*”) and for further information on the consequences of an Event of Default under TWUL’s financing facilities, please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events; Trigger Event Consequences; Events of Default*). The occurrence of an Event of Default could also have an adverse effect on TWUL’s business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer’s ability to meet its obligations under the Bonds issued under the Programme.

Impact of Ofwat adopting tighter regulatory measures to achieve financial resilience

In July 2022, Ofwat published a consultation under sections 13 and 12A of the WIA on proposed modifications to the ring-fencing licence conditions of the largest undertakers to strengthen their financial resilience. On 20 March 2023, Ofwat published its decision in respect of the July 2022 consultation to modify the following licence conditions:

- Condition P26, requiring TWUL to ensure that TWUL or the Issuer maintains, at all times, two (rather than one as was previously the case) issuer credit ratings which are investment grade rating from two different credit rating agencies (other than where Ofwat provides its written agreement for TWUL to maintain only one). In addition, TWUL must inform Ofwat as soon as reasonably practicable when it changes or becomes aware of a change in any of its issuer credit ratings and include the reasons for such change in rating. A notification must be provided within a maximum of five working days of: (i) a change in credit rating grade or outlook; (ii) a new issuer credit rating being obtained; or (iii) the withdrawal of an issuer credit rating. These modifications took effect from 17 May 2023;
- the dividend policy licence condition (Condition P30) to require that TWUL shall declare or pay dividends only in accordance with a dividend policy which has been approved by the TWUL Board and which complies with the following principles: (i) that dividends declared or paid will not impair the ability of TWUL to finance the business, taking account of current and future investment needs and financial resilience over the longer term; (ii) that dividends declared or paid should take account of service delivery for customers and the environment over time, including performance levels and other obligations; and (iii) that dividends declared or paid should reward efficiency and the management of risks to TWUL. TWUL believes that its current dividend policy and its application

meet these key requirements. The Board will review its policy during the course of 2023/24 to ensure alignment; and

- the cash lock-up licence condition (Condition P28) to raise the cash lock-up trigger to apply where any of TWUL or the Issuer's monitored ratings for Ofwat's purposes are at or below BBB/Baa2 with a negative outlook, effective from 1 April 2025. The cash lock-up trigger is currently set at BBB-/Baa3 with a negative outlook, being the lowest investment grade rating. The modification includes a 3-month grace period between the point that a rating falls to the new trigger level of BBB/Baa2 with negative outlook and the cash lock-up being applied. During this period, companies can submit a request to Ofwat to determine (or Ofwat may determine on its own initiative) that the cash lock-up should not apply on the basis that the company's financial resilience is not at risk. If a relevant credit rating were to fall to BBB-/Baa3 or lower, then the cash lock-up would automatically apply. The cash lock up mechanism would, if triggered, stop most payments being made by TWUL to other group companies, including dividend payments (regardless of purpose, e.g., for paying shareholder distributions or servicing of debt interest payments of other group companies). This will not prevent payments by TWUL of interest, principal and fees on intercompany loans made to TWUL by the Issuer, provided that the Issuer remains in the TWU Financing Group.

These modification to the ring-fencing licence conditions could increase the likelihood of TWUL not being able to pay a dividend, affecting the equity proposition that TWUL presents. These factors could potentially give rise to increases in associated funding costs, affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. These changes may also result in TWUL being less able to attract equity investment in the future.

Financial risks

Future funding

The TWU Financing Group will need to access further funding (through equity and/or debt) from time to time in order to, among other things, finance maintenance and investment in TWUL's asset base and refinance existing indebtedness and other amounts owed by the TWU Financing Group (including for liquidity or working capital purposes or where the terms of existing liabilities have become inefficient).

There can be no assurance that the TWU Financing Group will be able to raise sufficient capital, or at a suitable interest rate (if incurred as indebtedness), or on suitable terms, or at the requisite time such that the purposes for which such capital 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 and/or in such manner which enables the TWU Financing Group to comply with their contractual and regulatory obligations. In particular, any deterioration in credit ratings of the TWU Financing Group or perceived weaknesses in the reputation or credit strength of TWUL or its parent companies could potentially give rise to increases in associated funding costs and/or reduced access to debt capital markets.

The Kemble Shareholders provided £500 million in shareholder funding in March 2023. The TWU Financing Group is currently working with the Kemble Shareholders to agree on and to facilitate the making of additional commitments to fund an additional £750 million assumed in TWUL's internal business plan (the "**Additional Shareholder Funding**") and to acknowledge the possibility of further equity investment in the medium-term significantly in excess of the current shareholder commitment. Indicatively, this is expected to be in the region of £2.5 billion, but the nature and amount of such medium-term support will depend on finalisation of the

business plan and the regulatory framework that will apply to the AMP8 period. In addition, TWUL (with Kemble Shareholder input) is in discussions with Ofwat regarding TWUL's regulatory arrangements.

The Kemble Shareholders have evidenced their support for TWUL through a support letter in July 2023 (which replaces the support letter entered into in June 2022), where the Kemble Shareholders committed to fund the Additional Shareholder Funding if certain conditions are met (and have undertaken to hold investment committee meetings in respect of the Additional Shareholder Funding if certain milestone conditions are met and subject to approval, negotiate in good faith commitment letters), including:

- investment committee approval by each Kemble Shareholder on a several basis, not a joint and several basis;
- satisfactory regulatory arrangements being agreed, business plan finalisation, no lock-up, trigger event or event of default under TWUL's financings, ratings requirements aligned to the cash lock-up requirements in TWUL's licence and execution of definitive finance documentation; and
- no insolvency, special administration, change to position in the ring-fencing certificate, nationalisation or shareholder funding illegality.

However, there is no certainty that the Additional Shareholder Funding (or any additional funding in excess of the Additional Shareholder Funding) will be forthcoming and the provision of funds, including in respect of raising funds through the issuance of further shareholder funding and equity investment, could be vetoed by a shareholder or shareholders under the governance arrangements between the shareholders.

TWUL will carefully monitor on a regular basis progress towards achieving Additional Shareholder Funding and satisfaction of the conditions for this and keep under review pathways to ensure the TWU Financing Group's continued financial resilience. In the scenario where such conditions were not met and/or funding was not forthcoming, TWUL would consider all options available at that time and this could result in TWUL needing to revise its business plan to fit with the available funding, and adjust total expenditure down accordingly and/or consider contingency planning (as set out above). Implementing a revised business plan and/or implementing contingency planning would deliver less for customers, communities and the environment and, at that time, may result in TWUL not having available to it sufficient financial resources and facilities to enable it to fund the regulated activities necessary to fulfil in full its obligations under the Instrument of Appointment. In addition, TWUL may face credit rating agency downgrades and accordingly its access to the debt capital markets (in particular via its holding company Kemble Water Finance Limited) may be significantly constrained.

Special purpose vehicle Issuer

The Issuer was established as a special purpose financing entity for the purpose of issuing secured debt 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 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 interest payments and principal repayments under the Issuer/TWUL Loan Agreements and 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 and 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. One of the loans is due to be repaid by TWH in 2037 (or any other date agreed between

the parties) and the other is repayable on demand, and they 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 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.

Interest rate risk, inflation risk, and termination of hedging agreements

The Bank of England's Monetary Policy Committee voted by a majority of 6-3 to increase the Bank Rate by 0.25 percentage points, to 5.25% at its meeting ending on 3 August 2023, a 15-year high. Subsequently, the Bank of England's Monetary Policy Committee voted by a majority of 5-4 to maintain the Bank Rate at 5.25% at its meeting ending on 20 September 2023. The Issuer and TWUL are exposed to interest rate risk and inflation risk on their floating rate debt and Hedging Agreements and therefore may be exposed to unexpected 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 or TWUL is unable to find a replacement hedge counterparty and/or must fund the early termination cost, the funds available to the Issuer may be insufficient to meet fully its obligations under the Bonds. Current high levels of inflation may also impact Ofwat's approach to the upcoming PR24 price control.

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 2023, Conformed Senior RAR was 77.4 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 2023, TWUL's statutory net debt is £13,958.6 million and TWUL's net debt for covenant purposes (which is the figure used for the calculation of Conformed Senior RAR) is £14,664.2 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 unamortised IFRS 9 adjustment, 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 £18,945.1 million as at 31 March 2023.

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.

As part of PR19, Ofwat has encouraged all companies to reduce their gearing levels, with the introduction of the Gearing Outperformance Sharing Mechanism ("GOSM"). This imposes a sharing of the cost of capital benefits of higher gearing on companies with levels of gearing exceeding Ofwat's current target level of gearing of 65 per cent. There is a dead band threshold before the GOSM penalty is triggered, with the relevant threshold beginning at 74 per cent. for the year 2020-21, reducing by 1 per cent. each year, ending at 70 per cent. for the year 2024-25. The accrued penalty is expected to take effect as an end of period adjustment.

Price controls

The main instrument of economic regulation is the price control mechanism determined by Ofwat in accordance with the conditions of the licences. This controls the total revenue companies can recover from customers via bills for water supply and water recycling services. Certain charges are not included in the price control formula but are determined on an individual basis. The price controls are set by Ofwat for each Regulated Company individually and reflect the scale of its assumed expenditure, its cost of capital as determined by Ofwat, and its operational and environmental obligations, together with Ofwat's judgment to the scope for it to improve its efficiency.

Price control periods have to date been periods of five years, normally beginning on 1st April in years ending in 0 or 5 and end on 31st March 5 years later. The price controls for the current period (2020 to 2025, referred to as AMP7) were set at the end of 2019 to take effect on 1 April 2020, commonly referred to as Price Review 19 ("PR19"). The next set of price controls will be for the period starting in 2025 ("PR24").

On 13 December 2022, Ofwat published its final methodology for PR24 that sets out the framework that it will use for the next price control period running from 2025 to 2030 (the "PR24 Final Methodology"). The PR24 Final Methodology represents an evolution of Ofwat's PR19 methodology and emphasises that the water sector faces significant challenges, including that significantly better outcomes for the environment are required. Whilst Ofwat has provided an indication of the allowed return of 3.29% in real CPIH terms, key financial decisions have not been finalised and TWUL has proposed an allowed return of 4.25% in real CPIH terms in its PR24 Business Plan. Ofwat's early view calculations suggest that the allowed cost of debt could be higher than at PR19. This is based on the assumption that the recent elevated cost of new debt persists, feeding through not only to PR24 new debt costs over 2025-30 but also to embedded debt costs via the debt incurred in the remaining years of PR19 (2020-25). Ofwat's updated view of debt costs for the remaining years of the PR19 period in 2024 will provide a more certain picture of embedded debt costs for PR24.

TWUL operates within an economic regulatory framework whereby Ofwat sets price controls on the revenues that TWUL can raise and, together with the DWI and EA (each sponsored by DEFRA), monitors and enforces compliance with TWUL's licence, service and environmental obligations. For more information on the regulatory framework please see Chapter 6 (*Regulation of the Water and Wastewater Industry in England and Wales – Water and Wastewater Regulation Generally*).

In order for TWUL to continue to deliver its services in compliance with existing and future environmental measures, targets, legislation and regulation, TWUL may need to access further funding (see "*Financing Risks – Future Funding*"). Access to further funding is dependent on the regulatory process including the PR24 draft and Final Determination and, in turn, future price reviews.

If TWUL is not able to finance expenditure and investment programmes (whether through insufficient revenues and/or the linked ability to raise capital), TWUL may face challenges in meeting its compliance obligations over successive AMPs and is therefore likely to incur reputational damage, economic penalties and/or fines which would of themselves further adversely affect TWUL's ability to raise the revenue and capital required to meet its compliance obligations. This could in turn lead to enforcement action being taken against TWUL (see Chapter 6 – "*Regulation of the Water and Wastewater Industry in England and Wales – Licences - Enforcement Powers*").

These factors may adversely affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants – Trigger Events – Events of Default*).

Pensions

TWUL operates two defined benefit pension schemes: The Thames Water Pension Scheme ("**TWPS**") and the Thames Water Mirror Image Pension Scheme ("**TWMIPS**"). TWPS and TWMIPS have been closed to new entrants since April 2011 and 1989 respectively. TWMIPS remains open to future accrual of benefits, which are based on career average revalued earnings.

TWPS closed to future benefit accrual from March 2021, when all active members became deferred members i.e. they ceased to accrue new benefits and the link between past service benefits and salary was broken. On closure, active members were offered enhanced pension contributions through a master trust defined contribution ("**DC**") scheme operated by Aon, which is a pension arrangement available to all other employees. These enhanced pension contributions will cease in March 2024.

For TWPS, the most recent triennial valuation i.e., as at 31 March 2019, disclosed an ongoing (Technical Provisions) deficit of £215.9 million based on an employer covenant rating assessed by the Trustees of "Tending to strong". This ongoing (Technical Provisions) deficit improved to £18 million on a rolled-forward basis as at 31 March 2022, partly as a result of an accelerated deficit repair contribution payment of £70 million on 26 March 2021. This is referenced further below.

For TWMIPS, the most recent triennial valuation i.e., as at 31 March 2019, disclosed an ongoing (Technical Provisions) surplus of £67 million based on an employer covenant rating assessed by the Trustees of "Tending to strong". This ongoing (Technical Provisions) surplus improved to £61 million on a rolled-forward basis as at 31 March 2022.

The next triennial valuation of TWPS and TWMIPS (i.e., as at 31 March 2022) is currently underway but has not been completed within the statutory deadline of 15 months from the effective date of the valuation. As part

of the valuation process, TWUL and the Trustees will need to review the funding position of TWPS and TWMIPS and agree any necessary recovery plan. Discussions with the Trustees are ongoing and the Pensions Regulator is aware.

The amount of the defined pension liabilities is dependent upon certain key assumptions including e.g. rates of future increase in pensions, inflation rates, discount rates and longevity/mortality assumptions which may vary significantly from year to year. Future changes to these assumptions or adverse experience relative to those assumptions, may result in a deterioration in the funding position of TWPS and/or TWMIPS.

Whilst TWUL is exposed to the risk of a deterioration in funding, which may require deficit repair contributions to increase/recommence, TWUL has taken steps to manage this risk including closing TWPS and TWMIPS to new joiners. In addition, to mitigate the funding risk, the Trustees of each of TWPS and TWMIPS have adopted an investment strategy that significantly hedges the scheme's inflation and interest rate risks.

A deficit recovery plan will, where appropriate, need to be agreed between TWUL and the Trustees every three years (including as part of the 31 March 2022 valuation) and monitored by the Pensions Regulator. TWUL is committed to paying deficit recovery contributions to TWPS between 2019 and 2027 as part of the current deficit recovery plan agreed at the last triennial valuation (31 March 2019). In March 2021, the accelerated deficit repair contribution payment of £70m was made up to 2024 (inclusive). The next payment is due on or before 1 April 2025.

As TWMIPS is in surplus, there are no deficit recovery contributions due for this scheme.

If TWUL is unable to agree any future revised deficit repair plans with the Trustees subsequent to valuation, there is a risk that it could face enforcement action instigated by the Pensions Regulator. Further, under the rules governing TWPS, TWPS may be terminated on the occurrence of certain events, including if the assets of TWPS are insufficient to meet its liabilities assuming TWPS were wound up and TWUL and the Trustee fail to agree matters as to funding or the actuary to TWPS so advises. The rules governing TWMIPS contain a similar provision. Should either of these scenarios occur, they could have an adverse effect on TWUL's reputation, operations and financial condition.

Changes in specified inflation indices

In AMP7, TWUL's wholesale revenue is linked to the underlying rate of inflation (currently measured by CPIH, a measure of CPI inflation including housing costs) and as such is subject to fluctuations in line with changes in the rate of inflation. In addition to revenue, fluctuations in inflation could result in adverse effects to RCV growth, operating costs and capital expenditure, and customers' ability to pay increased charges.

Growth in RCV is explicitly linked to inflation, and 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.

As at 1 April 2020, 50 per cent. of RCV was indexed by the Retail Price Index ("**RPI**") and the remainder of the RCV as at that date, plus any new RCV added after that date, is indexed by CPIH. As part of the consultation on their PR24 Final Methodology, and consistent with previous guidance, Ofwat have indicated their intent to fully transition to CPIH indexation at PR24.

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 addition, the transition to CPIH could have financial risks for TWUL in terms of RCV and revenue growth.

In November 2020, the Government and the UK Statistics Authority (UKSA) confirmed that the RPI would be aligned with the CPIH in February 2030. Currently, the Chancellor's consent is required for any change to RPI

that would be “materially detrimental”, as determined by the Bank of England, to holders of certain index-linked gilts referencing RPI and this will remain until the last of these gilts reaches maturity in 2030. Since a broad range of contracts reference RPI, it will be necessary to analyse applicable terms in financial instruments maturing later than February 2030, to see whether they will apply to the change in RPI.

RCV is linked to inflation and a prolonged period of low inflation and/or deflation could thus have a negative impact on TWUL’s financial performance and cause an increase in leverage. Similarly, high inflation could result in TWUL facing increased cost pressures which may result in a reduction in interest cover. This could in turn impact on its ability to satisfy its obligations and financial covenants. As at 1 April 2020, 50 per cent. of RCV is indexed to RPI and the remainder of the RCV as at that date, plus any new RCV added after that date, is indexed to CPIH. As noted in previous guidance, Ofwat has confirmed its intention to fully transition to CPIH indexation at PR24.

TWUL generally hedges its exposure to RPI through the use of RPI-linked debt and swaps; however, the terms typically include a lag on the RPI index of several months, the duration of which can vary. Consequently, the indices used to determine accretion on RPI-linked debt and swaps will typically differ from that used to determine the nominal value of RCV on a Calculation Date, giving rise to a basis risk that may reduce the effectiveness of TWUL’s hedging. This could have a negative impact on TWUL’s financial performance and cause an increase in leverage. Once revenue ceases to be linked to RPI at PR24, TWUL will be exposed to basis mismatch in respect of any long-term liabilities under which payments are linked to RPI (albeit this may be mitigated in the future to some degree if RPI is modified in 2030).

Accordingly, TWUL’s exposure to inflation is largely through the CPIH component of RCV, where it is not offset by the inflation exposure of RPI-linked debt and could thus have a negative impact on TWUL’s financial performance and cause an increase in leverage.

This may affect TWUL’s business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer’s ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

Tax risks in AMP7

The TWU Financing Group has not been in a corporation 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 PR19 Final Determination, TWUL received tax funding from Ofwat totalling £3.8 million (£1.4 million for FY24 and £2.3 million for FY25); however it is expected that this will be repaid as no actual cash tax liability is now forecast for these periods.

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. This provides a considerable margin before the TWU Financing Group becomes cash tax paying, despite the receipt of Ofwat tax funding in AMP7.

It should be noted that the Government could amend existing tax rules or legislation or introduce other tax rules or legislation which would cause the TWU Financing Group to become cash tax paying in AMP7, which may not be funded by customers.

Changes in financial reporting standards

Terms 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, may 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. Such change in terms could affect TWUL's ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

TWUL revenue and cost considerations

The significant capital and operating expenditure required to maintain the network presents the risk that the cash generated by the business (together with any equity or debt capital raised by it) may not be sufficient: (i) to enable TWUL to make full and timely payment of amounts due to creditors; and (ii) to enable the Obligors to comply with requirements of the financial covenants set out in the Common Terms Agreement. Furthermore, key components of TWUL's cost base including power, chemical and materials are currently subject to macroeconomic factors such as inflation and price rises. Also, rising economic pressures experienced by UK households could pose further risks to TWUL's cash collection. These increases could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on Trigger Events, financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

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 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.

In addition, the recent high levels of inflation and rising interest rates have also adversely impacted the ability of TWUL's customers to pay their bills (sometimes referred to as a 'cost of living crisis'). The Bank of England noted in its Monetary Policy Summary and minutes of the Monetary Policy Committee meeting published on 3 August 2023 that, whilst inflation had fallen more than expected to 7.9% in June 2023 and is projected to fall

further to around 5% in Q4 2023, inflation levels is projected to remain above the target rate of 2% until the middle of 2025. In its Monetary Policy Summary and minutes of the Monetary Policy Committee meeting published on 21 September 2023 following the announcement of a further fall in inflation in August 2023 to 6.7%, the Bank of England projected that the United Kingdom will experience weak GDP growth of around 0.1% (previously projected in August 2023 to be 0.2%) for the remainder of 2023 but, contrary to previous predictions from the Bank of England, is expected to avoid entering recession. All these factors are likely to result in increases to the non-recoverability of customer debts. 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. Non-recovery of customer debt, above the allowance made by Ofwat, is a risk to TWUL and would cause TWUL's profitability to suffer and could affect TWUL's business, results of operations and overall financial condition, its ability to meet financial ratio and covenant requirements under the Common Terms Agreement and to raise finance, comply with its obligations under the Licence and legislation and ultimately affect the payment of principal and interest under the TWUF/TWUL Loan Agreements and the Issuer/TWUL Loan Agreements, and consequently the Issuer's ability to meet its obligations under the Bonds issued under the Programme. For more information on financial ratios and covenant requirements please see Chapter 7 (*Overview of the Financing Agreements – Common Terms Agreement – Covenants - Trigger Events – Events of Default*).

For a number of decades, TWUL has had arrangements in place with a number of local authorities under which such local authorities have taken responsibility, on behalf of TWUL, for the collection of unmeasured water and sewerage charges payable by local authority tenants in return for a commission retained by those local authorities. These arrangements have traditionally helped TWUL manage its debt collection risk in that the local authorities concerned have assumed the collection risk of water and sewerage charges. These arrangements have been brought to an end by TWUL and now all tenants are directly billed by TWUL. This means that TWUL has resumed the collection risk of water and sewerage charges from the tenants concerned and means that TWUL is more exposed to bad debt risk from such customers.

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 and global economy. For example, the large sovereign debts and/or fiscal deficits of a number of European countries, the United Kingdom and the United States have raised concerns regarding the financial condition of governments, as well as 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.

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 payment 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 payment 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.

Retailers paying in arrears are currently required to provide collateral cover, equivalent to between 30% and 50% of TWUL's NHH wholesale charges supply risk. One retailer operating in the Thames region has exited the market since 1 April 2017 with no material impact to TWUL.

Risks relating to the Bonds

Subordination of the Class B Bonds

Payments under the Class A 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 Bonds (each of whatever Sub-Class) rank *pari passu* amongst themselves.

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 has been 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 UK 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 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 or any political sub-division thereof. 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.

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 a 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 a 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.

The consequences for TWUL and the Issuer of the Trigger Events and the restrictions on raising Financial Indebtedness in relation to financial covenants set in the Common Terms Agreement are untested. Although designed to protect Bondholders, the enforcement of such consequences (which may in the case of Trigger Events be subject to Entrenched Rights) may of themselves affect TWUL’s business, results of operations and overall financial condition and its ability to meet financial ratio and covenant requirements under its financings to raise further finance, operate its business and deliver investment in capital expenditure.

Regulatory Capital Considerations; CRD V

Bondholders should consult their own advisers as to the effect of the application of the CRR and CRD V as implemented by their own regulator, to their holding of any Class of Bonds. The CRR and CRD V 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. CRD V, as it had effect immediately before the end of 31 December 2020, has been retained in UK domestic law by virtue of the EUWA (with amendments aimed at preventing, remedying or mitigating any failure of retained EU law to operate effectively, or any other deficiency in retained EU law arising from the withdrawal of the United Kingdom from the EU).

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

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.

In general, United Kingdom 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 United Kingdom and registered under the Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the “**UK CRA Regulation**”). Each of Standard & Poor’s and Moody’s is a credit rating agency established and operating in the United Kingdom and is registered under the UK CRA Regulation. The ratings Moody’s and Standard & Poor’s have given in relation to the Bonds are endorsed by Moody’s Deutschland GmbH and S&P Global Ratings Europe Limited respectively, both of which are established in the European Economic Area (EEA) and registered under the EU CRA Regulation.

The FCA maintains on its website, www.fca.org.uk, a list of credit rating agencies registered in accordance with the UK CRA Regulation. This list is updated after the adoption by the FCA of any decisions to withdraw the registration of a credit rating agency under the UK CRA Regulation. However, such a list is not conclusive evidence of the status of the relevant rating agency as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated list.

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’ judgement, 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 a specified inflation index during a reference period. 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. Inflation indexes may go down as well as up. Where Bonds in respect of which the amount of interest payable is subject to adjustment by reference to movements in an inflation index are issued, a decrease in such inflation index over the reference period will reduce the amount of interest payable in respect of such Bonds. In a deflationary environment, the annual interest received may be lower than the rate of interest specified in the applicable Final Terms. Where the amount payable upon redemption of the Bonds is subject to adjustment by reference to movements in an inflation index, a decrease in the specified inflation index over the reference period may reduce the amount to be repaid upon redemption of the Bonds to less than the nominal amount of the Bonds. Investors, as a consequence, may lose up to the maximum value of their entire investment or part of it. The historical experience of the relevant inflation index should not be viewed as an indication of future performance of that inflation index during the term of any inflation linked Bonds. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any inflation linked Bonds and the suitability of such Bonds in light of its particular circumstances.

Fundamental Changes to RPI, CPI or CPIH

The formula used by the Office for National Statistics for calculating RPI, CPI or CPIH may change over time. Such a change in the methodology for calculating RPI, CPI or CPIH may affect the actual RPI, CPI or CPIH figure. Consequently, the amount of interest payable on each interest payment date and/or the amount to be repaid upon redemption of index linked Bonds may increase, or decrease, as a result of such a change to the RPI, CPI or CPIH figure.

In particular, in March 2020, a public consultation was launched on proposals issued by the UK Statistics Authority (“UKSA”) on the timing and method of bringing CPIH methods and data sources into the RPI, including to cease the publication of RPI, and, in the interim, to change the methodology used for calculating the RPI with the aim of it converging with the methodology for calculating CPIH. In November 2020, the Government and the UKSA published their response to the consultation confirming that the methodology used for calculating the RPI will be aligned with the methodology for calculating CPIH no earlier than 2030.

In April 2021 the trustees of the BT, Ford and Marks and Spencer pension schemes filed an application for a judicial review, which was granted in December 2021, over the legality of the planned change to the calculation of RPI. On 1 September 2022 the High Court ruled in favour of the Government, stating the proposed changes can legally and practically be made by the Government in February 2030. This High Court decision will have a significant impact on returns to index-linked gilt investors and other legacy users of RPI and it is unclear what, if any, further steps such investors may take.

Condition 7 (*Indexation*) provides that in the case of a fundamental change to the coverage or the basic calculation of RPI, CPI or CPIH, as the case may be, in certain specified circumstances, adjustments to such index may be made, or a substitute index (with or without adjustments) may be agreed.

At the time of issue of any index linked Bonds, the applicability or non-applicability of Condition 7 (*Indexation*), as the case may be, in the case of a fundamental change to RPI, CPI or CPIH, as the case may be, may have a positive or negative impact on the amount of interest payable on each interest payment date and/or the amount to be repaid upon redemption of index linked Bonds. Each investor should consider carefully, and seek independent financial advice on, the impact of such changes on their investment.

Green Bonds, Social Bonds and Sustainability Bonds

Prospective investors who intend to invest in the Green Bonds, Social Bonds or Sustainability 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, Social Bonds or Sustainability Bonds together with any other investigation such investors deem necessary. Prospective investors should consult with their legal and other advisers before making an investment in any such Green Bonds, Social Bonds or Sustainability Bonds. In particular, no assurance is or can be given to investors by the Issuer, any other Obligor, the Dealers (or any of their respective affiliates) or any other person that the Eligible Green Projects, the Eligible Green Portfolio, the Eligible Social Projects, the Eligible Social Portfolio, the Eligible Sustainability Projects or the Eligible Sustainability 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”, “social”, “social bond”, “sustainability bond”, “sustainability” “ESG” or “sustainable” or equivalently-labelled projects or performance objectives or that any adverse sustainable and/or other impacts will not occur during the implementation of any projects or uses of the proceeds. In addition, no assurance can be given by the Issuer, the Arranger, the Dealers or any of their respective affiliates or any other person to investors that any Bonds will comply with any future standards or requirements for being Green Bonds, Social Bonds or Sustainability Bonds and, accordingly, the green / social / sustainable status of the Bonds could be withdrawn at any time.

In connection with the issue of Green Bonds, Social Bonds or Sustainability Bonds under the Programme, the Issuer and/or TWUL may request, at its discretion, further analysis by consultants and/or institutions with recognised social and environmental expertise to issue an opinion on the Sustainable Financing Framework, Green Bonds, Social Bonds or Sustainability Bonds (any such opinion, an “**External Review**”). The Issuer is expected to issue a report (“**Impact Report**”) on matters described in Chapter 9 “*Use of Proceeds*”.

Any External Review, Impact Report and the Sustainable Financing Framework are not, nor shall they be deemed to be, incorporated in and/or form part of this Prospectus. An External Review and/or the Sustainable Financing Framework and/or any Impact Report 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, Eligible Green Portfolio, Social Bonds, Eligible Social Portfolio, Sustainability Bonds or Eligible Sustainability Portfolio. An External Review and/or the Sustainable Financing Framework and/or any Impact Report would not constitute a recommendation by the Issuer, the Arranger, the Dealers (or any of their respective affiliates) or any other person to buy, sell or hold such Bonds. The Bondholders have no recourse against the Issuer, the Arranger, any Dealer (or any of their respective affiliates) or the provider of any such opinion or certification for the contents of any such opinion or certification. Any such opinion or certification is only current as at the date that opinion was initially issued and the providers of such opinions and certifications are under no obligation to update them following their issue. Prospective investors must determine for themselves the relevance of the Sustainable Financing Framework, any External Review and/or any Impact Report and/or the information contained therein and/or the provider of any External Review for the purpose of any investment in the Green Bonds, Social Bonds or Sustainability Bonds. Currently, the providers of such opinions and certifications are not subject to any specific or regulatory or other regime or oversight. In particular, no assurance or representation is or can be given to investors by the Issuer, the Arranger, the Dealers (or any of their respective affiliates) or any other person that an External Review and/or the Sustainable Financing Framework and/or any Impact Report 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 and/or the Sustainable Financing Framework and/or any Impact Report. In addition, although the Issuer may agree at the time of issue of any Green Bonds, Social Bonds or Sustainability 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 and/or the Sustainable Financing Framework may affect the value of such Sustainability Bonds and/or may have consequences for certain investors with portfolio mandates to invest in green, social, sustainability and/or sustainable assets. No assurance or representation is given by the Issuer, the Arranger, the Dealers (or any of their respective affiliates) or any other person as to the suitability or reliability for any purpose whatsoever of any External Review or other opinion or certification of any third party (whether or not solicited by the Issuer and/or TWUL) which may be made available in connection with the issue of any Bonds, and the Bondholders have no recourse against the Issuer, the Arranger or any of the Dealers (or any of their respective affiliates) in respect of the contents of any External Review or other such opinion or certification. It should be noted that there is currently no globally accepted framework or definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a “green”, “sustainability” or “social” or an equivalently-labelled investment or as to what precise attributes are required for a particular investment to be defined as “green”, “sustainable” or “social” or such other equivalent label. If developed in the future, investors in such Bonds may find that the Bonds no longer comply with any such definition or label.

Furthermore, it should be noted that no member of the TWU Financing Group, no Dealer (nor any of their respective affiliates) nor any other person makes any representation as to the suitability of the Green Bonds, Social Bonds or Sustainability Bonds to fulfil environmental, social and sustainability criteria required by prospective investors. No member of the TWU Financing Group, nor Dealer (nor any of their respective

affiliates) nor any other person is responsible for, and no representation or assurance is given by the Dealers (or any of their respective affiliates) as to the suitability or reliability of, any third party assessment of the Green Eligibility Criteria or the Social Eligibility Criteria. Nor is any Dealer responsible for: Eligible Green Projects, Eligible Social Projects or Eligible Sustainability Projects. Nor is any Dealer responsible for: (i) any assessment of the Eligible Green Projects; or (ii) any verification of whether the Eligible Green Investments fall within the Eligible Green Projects; or (iii) any assessment of the Eligible Social Projects; or (iv) any verification of whether the Eligible Social Investments fall within the Eligible Social Projects; or (v) any assessment of the Eligible Sustainability Projects; or (vi) any verification of whether the Eligible Sustainability Investments fall within the Eligible Sustainability Projects; or (vii) the monitoring of the use of proceeds of any Green Bonds, Social Bonds or Sustainability Bonds. The External Review provider(s) have been appointed by TWUL and the Issuer. In the event that any Bonds are listed or admitted to trading on any dedicated “sustainable” or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer, the Dealers (or any of their respective affiliates) or any other person that such listing or admission satisfies, whether in whole or in part, 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, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect green, social or sustainable impact of any projects or uses which are the subject of or related to, any green, social or sustainability reports. Neither the Arranger nor the Dealers nor any of their respective affiliates shall be responsible for the ongoing monitoring or verification of the use of proceeds in respect of any such Bonds. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer, the Dealers (or any of their respective affiliates) or any other person that any such listing or admission to trading will be obtained in respect of any such Bonds or, if obtained, that any such listing or admission to trading will be maintained during the life of the Bonds. Any such event or failure to apply an amount equivalent to the net proceeds of any Bonds issued as Green Bonds, Social Bonds or Sustainability Bonds for any eligible project and/or any withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Bonds no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Bonds and also potentially the value of any other Bonds and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

For the avoidance of doubt, the Sustainable Financing Framework, any External Review, any Impact Report, the DNV External Review referred to in the applicable Final Terms or pricing supplement(s) are not, nor shall they be deemed to be, incorporated in and/or form part of this Prospectus. Investors should refer to the Issuer’s website (<https://www.thameswater.co.uk/about-us/investors/debt-information>), the Sustainable Financing Framework and the relevant External Review for further information.

Regulation and Reform of EURIBOR and other “benchmarks” could adversely affect any Bonds linked to such “benchmarks”

Reference rates and indices, including interest rate benchmarks, such as EURIBOR which are used to determine the amounts payable under financial instruments or the value of such financial instruments (“**Benchmarks**”), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a significant adverse effect on any Bonds referencing or linked to such Benchmark. More broadly, any of the international, national or other proposals of reform, or the general increased regulatory scrutiny of the

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 the methodologies used in certain “benchmarks” or lead to the discontinuance or unavailability of quotes on certain “benchmarks”.

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a “risk free overnight rate” which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate (“**€STR**”) as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has been reformed in order to comply with the terms of the EU Benchmarks Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

At this time, it is not possible to predict the effect of any establishment of alternative reference rates or any other reforms to EURIBOR that may be enacted. Uncertainty as to the nature of such alternative reference rates or other reforms may adversely affect the trading market for EURIBOR-linked securities. The potential elimination of benchmarks such as EURIBOR, the establishment of alternative reference rates or changes in the manner of administration of such a benchmark could also require adjustments to the terms of the benchmark-linked securities and may result in other consequences such as interest payments that are lower than, or that do not otherwise correlate over time with, the payments that would have been made on those securities if the relevant benchmark was available in its current form. Each potential investor should consult its legal advisers (or any other relevant independent advisers) to make their own assessment about the potential risks relating to the effect of any establishment of alternative reference rates or any other reforms to EURIBOR that may be enacted.

The EU Benchmarks Regulation and the UK Benchmarks Regulation could adversely affect any Bonds linked to a “benchmark”

Regulation (EU) 2016/1011 (the “**EU Benchmarks Regulation**”) was published in the official journal on 29 June 2016 and has applied from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that applied from 30 June 2016).

EU Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things it: (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and to comply with extensive requirements in relation to the administration of benchmarks; and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). The UK Benchmarks Regulation (Regulation (EU) No.2016/1011 as it forms part of domestic law by virtue of the EUWA) (the “**UK Benchmarks Regulation**”), among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed). Both the EU Benchmarks Regulation and UK Benchmarks Regulation could have a material impact on any Bonds linked to EURIBOR or another benchmark rate or index, including in any of the following circumstances:

- (i) a “benchmark” ceases to be published, calculated or administered;

- (ii) an index which is a “benchmark” could not be used by a supervised entity in certain ways if its administrator does not obtain authorisation or register, or if based outside of the UK or in a non- EU jurisdiction, the administrator is not otherwise recognised as equivalent; and
- (iii) the methodology or other terms of the “benchmark” could be changed in order to comply with the terms of the EU Benchmarks Regulation and/or UK Benchmarks Regulation (as applicable),

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. Either of the above could potentially lead to the Bonds being de-listed or redeemed early or otherwise affected depending on the particular “benchmark” and applicable terms of the Bonds.

Fallback arrangements could adversely affect Floating Rate Bonds

The potential elimination of a benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest provisions of the Terms and Conditions, or result in other consequences, in respect of any Bonds linked to such benchmark. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of the alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the terms of the relevant Bonds, the return on the relevant Bonds and the trading market for securities (including the Bonds) based on the same benchmark.

The Conditions of the Bonds provide for certain fallback arrangements in the event that an Original Reference Rate and/or any page on which an Original Reference Rate may be published (or any other successor service) becomes unavailable or a Benchmark Event otherwise occurs. If a Benchmark Event occurs, the Issuer shall use its reasonable endeavours to appoint, at the Issuer’s expense, an Independent Adviser. The Independent Adviser shall endeavour to determine a Successor Rate or Alternative Rate (including any Adjustment Spread) to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate (and any Adjustment Spread) to determine the Interest Rate is likely to result in Bonds linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Interest Rate) than they would do if the Original Reference Rate were to continue to apply in its current form.

The aim of the Adjustment Spread is to reduce or eliminate, to the extent reasonably practicable, any economic prejudice or benefit (as the case may be) to Bondholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate. However, it may not be possible to determine or apply an Adjustment Spread and, even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to Bondholders and Couponholders. If no Adjustment Spread can be determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Interest Rate. The use of any Successor Rate or Alternative Rate (including with the application of an Adjustment Spread) may result in Bonds linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Interest Rate) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Independent Adviser, the Conditions provide that the Issuer may vary the Conditions and/or the Bond Trust Deed, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Bondholders.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate (and any Adjustment Spread), in accordance with the terms and conditions of the Bonds before the next Interest Determination Date. In these circumstances, the Interest Rate for the next succeeding Interest Period will be the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs

before the first Interest Determination Date, the Interest Rate will be the initial Interest Rate. Applying the initial Interest Rate, or the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event is likely to result in Bonds linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Interest Rate) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Bonds, the initial Interest Rate, or the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Bonds, in effect, becoming Fixed Rate Bonds. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time. Any such consequences could have a material adverse effect on the value of and return on any such Bonds.

Where ISDA Determination is specified as the manner in which the Interest Rate in respect of Floating Rate Bonds is to be determined, the Conditions provide that the Interest Rate in respect of the Bonds shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions and the ISDA Benchmark Supplement. Where the Floating Rate Option specified is an “EURIBOR” Floating Rate Option, the Interest Rate may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the EURIBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Interest Rate that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Bonds.

The Issuer may enter into hedging transactions to hedge the floating rate exposure of a Floating Rate Bond. The fallback arrangements in respect of such hedging transactions could be different to those in the Floating Rate Bonds which could lead to a mismatch between the Floating Rate Bond and the hedging transaction. This could leave the Issuer exposed to a mismatch risk which it otherwise would not have been.

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.

The market continues to develop in relation to SONIA as a reference rate

The Issuer may issue Floating Rate Bonds referencing SONIA. The use of Sterling Overnight Index Average (“SONIA”) as a reference rate is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing SONIA. Investors should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets. In addition, market participants and relevant working groups are exploring alternative reference rates based on so called on risk free rates, including a term SONIA reference rate (which seek to measure the market’s forward expectation of an average SONIA rate over a designated term) and the Bank of England started publishing the SONIA Compounded Index from 3 August 2020.

Accordingly, prospective Bondholders should be aware that the market continues to develop in relation to SONIA as a reference rate in capital markets. For example, in the context of backwards-looking SONIA rates, market participants and relevant working groups are currently assessing the differences between compounded rates and weighted average rates, and such groups are also exploring alternative reference rates based on SONIA, including forward-looking ‘term’ SONIA reference rates which seek to measure the markets forward expectation of an average SONIA rate over a designated term.

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Conditions and used in relation to Bonds that reference SONIA issued under this Prospectus. In addition, the methodology for determining any overnight rate index by reference to which the Interest Rate in respect of certain Bonds may be calculated could change during the life of the Bonds. The Issuer may in the future also issue Bonds referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA referenced Bonds issued by it. The nascent development of SONIA as an interest reference rate for the Eurobond markets, as well as continued development of SONIA-based rates for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA referenced Bonds issued under the Programme from time to time.

Further, if Bonds referencing SONIA become due and payable as a result of an event of default under the Conditions, the rate of interest payable for the final Interest Period in respect of such Bonds shall only be determined immediately prior to the date on which the Bonds become due and payable and shall not be reset thereafter.

In addition, the manner of adoption or application of SONIA reference rates in the bond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of instruments referencing SONIA. Since SONIA is a relatively new market index, Bonds linked to SONIA may have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities indexed to SONIA such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of such Bonds may be lower than those of later-issued indexed debt securities as a result. Further, if SONIA does not prove to be widely used in securities like the instruments, the trading price of such Bonds linked to SONIA may be lower than those of Bonds linked to indices that are more widely used. Investors in such Bonds may not be able to sell such Bonds at all or may not be able to sell such Bonds at prices that will provide them with a yield comparable to similar investments that have a developed secondary market and may consequently suffer from increased pricing volatility and market risk.

SONIA differs from other benchmarks in a number of material respects and has a limited history

Publication of SONIA has a limited history. The future performance of SONIA may therefore be difficult to predict based on the limited historical performance. The level of SONIA during the term of Bonds issued under the Programme may bear little or no relation to the historical level of SONIA. Prior observed patterns, if any, in the behaviour of market variables and their relation to SONIA such as correlations, may change in the future. Furthermore, interest on Bonds which reference Compounded Daily SONIA is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Bonds which reference such risk free rates to reliably estimate the amount of interest which will be payable on such Bonds and some investors may be unable or unwilling to trade such Bonds without changes to their IT systems, both of which could adversely impact the liquidity of such Bonds. If Bonds referencing Compounded Daily SONIA become due and payable as a result of an event of default under Condition 11 (*Events of default*), or are redeemed early on a date which is not an Interest Payment Date, the rate of interest payable for the final Interest Period in respect of such Bonds shall only be determined immediately prior to the date on which the Bonds become due and payable.

The administrator of SONIA may make changes that could change the value of SONIA or discontinue SONIA

The Bank of England (or a successor), as administrator of SONIA, may make methodological or other changes that could change the value of SONIA, including changes related to the method by which SONIA is calculated, eligibility criteria applicable to the transactions used to calculate SONIA, or timing related to the publication of SONIA. If the manner in which SONIA is calculated is changed, that change may result in a reduction of the amount of interest payable on such Bonds and the trading prices of such Bonds. In addition, the administrator may alter, discontinue or suspend calculation or dissemination of SONIA (in which case a fallback method of determining the interest rate on the Bonds will apply). The administrator has no obligation to consider the interests of Bondholders when calculating, adjusting, converting, revising or discontinuing SONIA.

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 and 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 Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*) under the heading “*Terms and Conditions of the Bonds*” in Chapter 8 (*The Bonds*) of this Prospectus.

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.

CHAPTER 3 THE PARTIES

| | |
|----------------------------|--|
| Issuer | Thames Water Utilities Finance plc, a company incorporated with limited liability in England and Wales (registered number 2403744) (LEI: 213800ESMPQ4RQ7G8351). 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. |
| TWUL | Thames Water Utilities Limited, a company incorporated in England and Wales with limited liability (registered number 2366661 and LEI 213800JKM5UQHFJOTZ25), which holds an Instrument of Appointment dated August 1989 under Sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the then Secretary of State for the Environment appointed TWUL as a water and sewerage undertaker under the Water Industry Act 1991, as amended (the “WIA”) for the areas described in the Instrument of Appointment. TWUL is a wholly-owned subsidiary of TWH. |
| TWH | Thames Water Utilities Holdings Limited, a company incorporated in England and Wales with limited liability (registered number 6195202 and LEI 213800L6QBDNW1PDRB21). TWH is a wholly-owned subsidiary of Parent. |
| Parent | Thames Water Limited, a private company incorporated in England and Wales with limited liability (registered number 02366623). |
| Guarantors | Pursuant to the terms of the Security Agreement, TWH guarantees the obligations of TWUL 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> ”. |
| TWU Financing Group | The TWU Financing Group comprises TWH, TWUL and the Issuer. |
| Thames Water Group | Kemble Water Holdings Limited and its Subsidiaries from time to time. |
| Arranger | Barclays Bank PLC. |

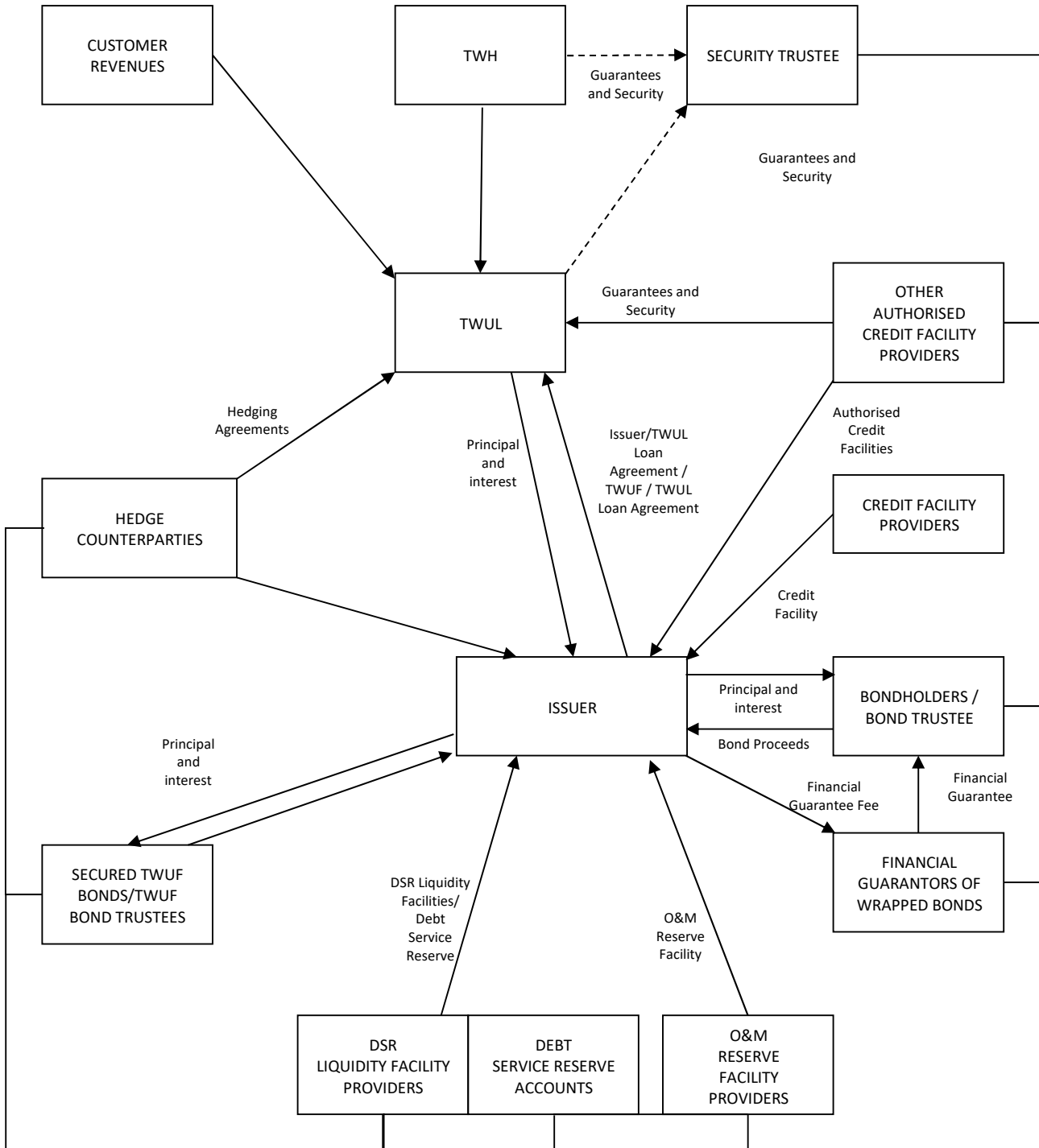
| | |
|---|--|
| Dealers | Bank of China Limited, London Branch, The Bank of Nova Scotia, London Branch, Barclays Bank PLC, BNP Paribas, HSBC Bank plc, ICBC Standard Bank Plc, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, National Australia Bank Limited (ABN: 12 004 044 937), NatWest Markets Plc, RBC Europe Limited, Banco Santander, S.A., Skandinaviska Enskilda Banken AB (publ), SMBC Nikko Capital Markets Limited and The Toronto-Dominion Bank will act as dealers (together with any other dealer appointed from time to time by the Issuer and the other Guarantors, “ Dealers ”) either generally with respect to the Programme or in relation to a particular Tranche, Sub-Class, Class or Series of Bonds. |
| Secondary Market Guarantors | Each Eligible Secondary Market Guarantor that, from time to time, in respect of any Class A Unwrapped Bonds: (i) delivers a FG Covered Bond Notice (as defined below) to the Security Trustee and the Bond Trustee in accordance with the provisions of the STID; and (ii) accedes to the STID in accordance with the provisions thereof (each in such capacity, a “ Secondary Market Guarantor ”). FGIC UK Limited, a private limited company incorporated in England and Wales whose registered office is 3rd Floor, 11 Old Jewry, London EC2R 8DU, acceded as a Secondary Market Guarantor on 5 September 2007. |
| Hedge Counterparties | Certain financial institutions from time to time which enter into Hedging Agreements with the TWU Financing Group as counterparties and which comply with certain criteria set out in the Hedging Policy set out in the Common Terms Agreement and described in Chapter 7 “ <i>Overview of the Financing Agreements</i> ”. The name and a brief description of each current Hedge Counterparty is set out in Chapter 11, “ <i>Description of the Hedge Counterparties</i> ”. The TWU Financing Group may enter into further Hedging Agreements from time to time which comply with the Hedging Policy. |
| Bond Trustee | Deutsche Trustee Company Limited acts and will act as trustee (the “ Bond Trustee ”) for and on behalf of the holders of each Class of Bonds of each Series (the “ Bondholders ”). |
| Security Trustee | Deutsche Trustee Company Limited acts and will act as security trustee for itself and on behalf of the Secured Creditors (as defined below) (the “ Security Trustee ”). |
| Secured Creditors | The Secured Creditors comprise any person who is a party to, or has acceded to, the STID as a Secured Creditor. (For the avoidance of doubt, Secondary Market Guarantors will not accede as Secured Creditors.) |
| DSR Liquidity Facility Providers | Certain financial institutions assembled from time to time by the Thames Water Group (each a “ DSR Liquidity Facility ”). |

| | |
|---|---|
| | Provider” and together, the “ DSR Liquidity Facility Providers”). |
| O&M Reserve Facility Providers | Certain financial institutions assembled from time to time by the Thames Water Group (each an “ O&M Reserve Facility Provider” and together, the “ O&M Reserve Facility Providers”). |
| Credit Facility Providers | Certain financial institutions assembled from time to time by the Thames Water Group (each a “ Credit Facility Provider” and together, the “ Credit Facility Providers”). |
| EIB | European Investment Bank, acting through its office at 98-100 boulevard Konrad Adenauer, Luxembourg-Kirchberg, Grand Duchy of Luxembourg. |
| Paying Agents | Deutsche Bank AG, London Branch acts and will act as principal paying agent (the “ Principal Paying Agent” and, together with any other paying agents appointed by the Issuer, the “ Paying Agents”) to provide certain issue and paying agency services to the Issuer in respect of the Bearer Bonds and Registered Bonds. |
| Agent Bank | Deutsche Bank AG, London Branch acts and will act as agent bank (the “ Agent Bank”) to provide certain calculation agency services under the Agency Agreement in respect of the Bonds. |
| Account Bank | National Westminster Bank plc, acting through its City of London office at 1 Princes Street, London (the “ Account Bank”). |
| Cash Manager | TWUL (the “ Cash Manager”), or during a Standstill Period, National Westminster Bank Plc (the “ Standstill Cash Manager”). |
| Registrar and Transfer Agent | Deutsche Bank Trust Company Americas will act as transfer agent (the “ Transfer Agent”) and will provide certain transfer agency services to the Issuer in respect of the Registered Bonds. Deutsche Bank Trust Company Americas will act as registrar (the “ Registrar”) and will provide certain registrar services to the Issuer in respect of the Registered Bonds. |
| TWUF Bond Trustee | Deutsche Trustee Company Limited is the trustee for and on behalf of the holders of each class of Flipper Bonds (in such capacity, the “ Flipper Bond Trustee”) and each class of Legacy Bonds (in such capacity, the “ Legacy Bond Trustee”) and, together with the Flipper Bond Trustee and the Legacy Bond Trustee, the “ TWUF Bond Trustees” and each a “ TWUF Bond Trustee”). |

CHAPTER 4 OVERVIEW OF THE FINANCING STRUCTURE

PROGRAMME STRUCTURE

- The Issuer may under the Programme issue Class A Unwrapped Bonds and Class B Unwrapped Bonds.



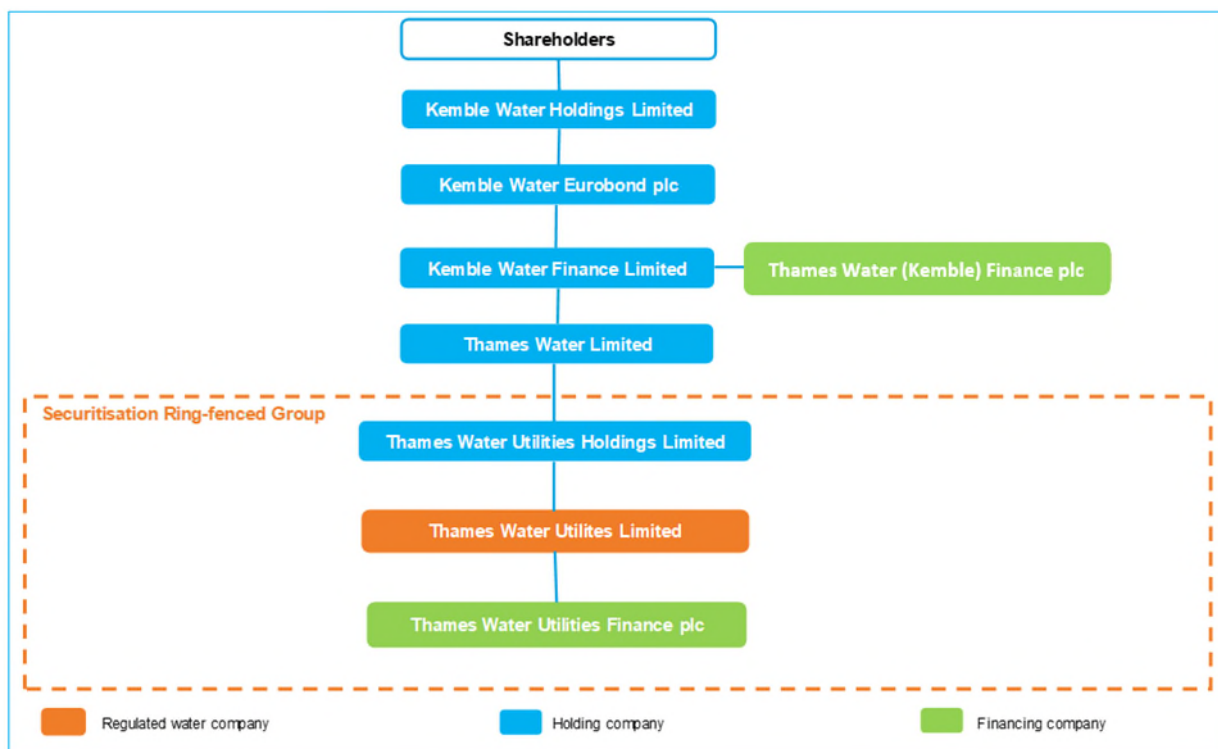
- The Issuer and, for certain indebtedness, TWUL may also borrow money from Authorised Credit Providers under Authorised Credit Facilities for funding the working capital and capital expenditure requirements of TWUL, to service and repay the TWU Financing Group's indebtedness and for the TWU Financing 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 (both those issued previously and any future issuance) 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. Any Bonds (including those previously issued and any further issuance) will be backed by the same assets being payments the Issuer is due to receive from TWUL under the Issuer/TWUL Loan Agreements, TWUF/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 (both those issued previously and any future issuance) 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 the 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 by Ofwat, as further described in Chapter 6 “Regulation of the Water and Wastewater Industry in England and Wales”. 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 companies within the Thames Water Group, a new “ring-fenced” financing group (being the “**TWU Financing Group**” depicted above) was created, which, so far as practicable, is financially and operationally separate from the rest of the Thames Water Group. The diagram above illustrates the structure of the TWU Financing Group and its ownership structure.

TWUL

Operational and financial overview

TWUL is the largest provider of water and sewerage services in the UK, based on the number of customers served and a stated RCV of £18.9 billion as at 31 March 2023 (31 March 2022: £16.6 billion). It is the principal trading company of the Thames Water Group.

RCV is an alternative performance measure determined by Ofwat. It is derived in line with Ofwat’s prescribed methodology and is a key component 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

| | Year to 31 March | |
|--|------------------------------------|------------------------------------|
| | 2023 | 2022 |
| Revenue..... | £2,265.2 million ⁽³⁾ | £2,176.9 million ⁽³⁾ |
| Revenue (Appointed Business only ⁽²⁾)..... | £2,226.1 million | £2,125.9 million |
| Total operating expense..... | £2,016.8 million ⁽³⁾ | £1,843.4 million ⁽³⁾ |
| Operating profit..... | £356.0 million ⁽³⁾ | £429.2 million ⁽³⁾ |
| Capital expenditure (including property, plant, equipment, and intangibles) ⁽⁴⁾ | £1,769.7 million | £1,344.0 million |
| Average number of persons employed in the year | 7,242 | 7,082 |

Notes:

- (1) The figures for the years ended 31 March 2022 and 31 March 2023 are as quoted in the Thames Water Annual Report 2022/23 and Annual Performance Report 2022/23.
- (2) Revenue is for the Appointed Business only (defined below) as per TWUL's Annual Performance Report. All other figures not marked as Appointed Business only, are the total statutory TWUL figures.
- (3) 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.
- (4) This amount relates to additions in the year ended 31 March 2023 to intangible assets of £44.8 million (2022: £72.3 million) and to Property, plant and equipment of £1,724.9 million (2022: £1,271.7 million).

Amounts disclosed in the table above are in accordance with the International Financial Reporting Standards ("**IFRS**") as adopted by the UK Endorsement Board.

Appointed Business and Permitted Non-Appointed Business

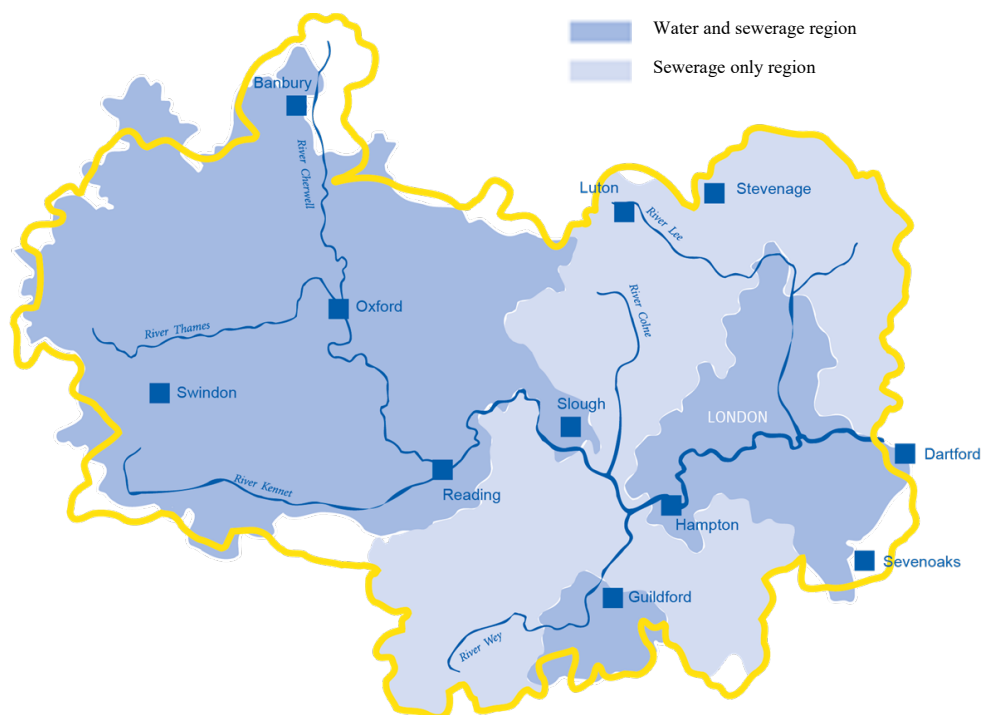
The Appointed Business comprises the regulated activities of TWUL as defined in Condition A of its Licence. These regulated activities are necessary for TWUL to fulfil the function and duties of a water and sewerage undertaker under the WIA.

In addition to its duties as an Appointed Business, TWUL also undertakes certain Permitted Non-Appointed Business activities. 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 made out of funds to which the shareholders are entitled and are not funded by customers.

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” and the area outlined by the “Sewerage Region Boundary”, 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.

Thames Water service area



Please note that this map does not indicate those areas which are subject to inset (NAV) appointments as described above.

TWUL is responsible for supplying clean and safe drinking water to 10 million customers every day and treat the wastewater of 16 million customers. Its region follows the River Thames and stretches from Gloucestershire to Essex, covering countryside, villages, towns and London.

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 price control known as the Periodic Review Process, that includes in its operational performance commitments, including drinking water quality, environmental regulations and other items as set out in the terms of its Licence. As part of each Periodic Review and its primary duties (section 2 of the Water Industry Act 1991), Ofwat sets prices 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.

PR19

Ofwat issued its final decision known as the 2019 Final Determination for the regulatory period 1 April 2020 to 31 March 2025 on 16 December 2019 (the “**2019 Final Determination**”) and this was accepted by Thames Water in February 2020. The 2019 Final Determination sets out price controls, service commitments and the wider incentive framework for six separate binding controls: five wholesale controls being water resources,

water network plus, bioresources, wastewater network plus and one in respect of TTT (applicable to TWUL only), and one retail control covering household customers. Prices for the average household customer are expected to decrease in real terms over the course of the regulatory period (including the IP Charges). These charges reflect £10.3 billion of allowed revenues (2017/18 CPIH prices), £8.9 billion of wholesale allowed expenditure (2017/18 CPIH prices), £0.8 billion of retail allowed expenditure (nominal prices) and a wholesale allowed return (cost of capital) of 2.9 per cent. (CPIH basis) for the period¹.

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 outcomes framework sits in the broader context of the company's statutory and licence requirements for service delivery. Independently of the outcome's framework, each company also must ensure that it complies with its legal obligations, or risk enforcement action. If a company's performance falls below the level set for a performance commitment (irrespective of the existence of any deadband or collar),

Ofwat will consider whether this is indicative of wider compliance issues to the detriment of consumers and whether enforcement action, with the potential for remedial and fining measures, is warranted.

The framework includes fifteen common performance commitments, which apply to all companies and the company's bespoke performance commitments. Each performance commitment has an associated incentive, which may be financial and reputational or reputation only.

The common performance commitments ensure that Ofwat's framework focuses on the issues that matter to customers. The list includes the quality and reliability of the water and wastewater supply, resilience, asset health and customer service. By measuring and incentivising companies against service failures, these performance commitments motivate water companies' management to identify and mitigate risks to their services. The common performance commitments rely on consistent definitions and reporting by all companies.

Ofwat has targeted all companies to deliver upper quartile performance for the common performance commitments for water supply interruptions, internal sewer flooding and pollution incidents. TWUL has also been targeted with a 20% reduction in leakage (other companies have generally been set a 15% reduction) over the AMP.

The bespoke performance commitments reflect the results of TWUL's customer and stakeholder engagement and cover the five areas listed below:

1. The TWUL-specific price control in relation to TTT Project revenue collection
2. Vulnerability
3. The environment
4. Resilience, and
5. Abstraction Incentive Mechanism (AIM)

These areas matter to customers and society and the performance commitments, which TWUL has developed reflect TWUL's customer and stakeholder preferences, challenges and facilitate innovation. They are also set at stretch levels of performance. TWUL has set thirty-seven bespoke performance commitments.

The 2019 Final Determination includes provisions for TWUL recognising the financial effects of its ODI performance in the following AMP.

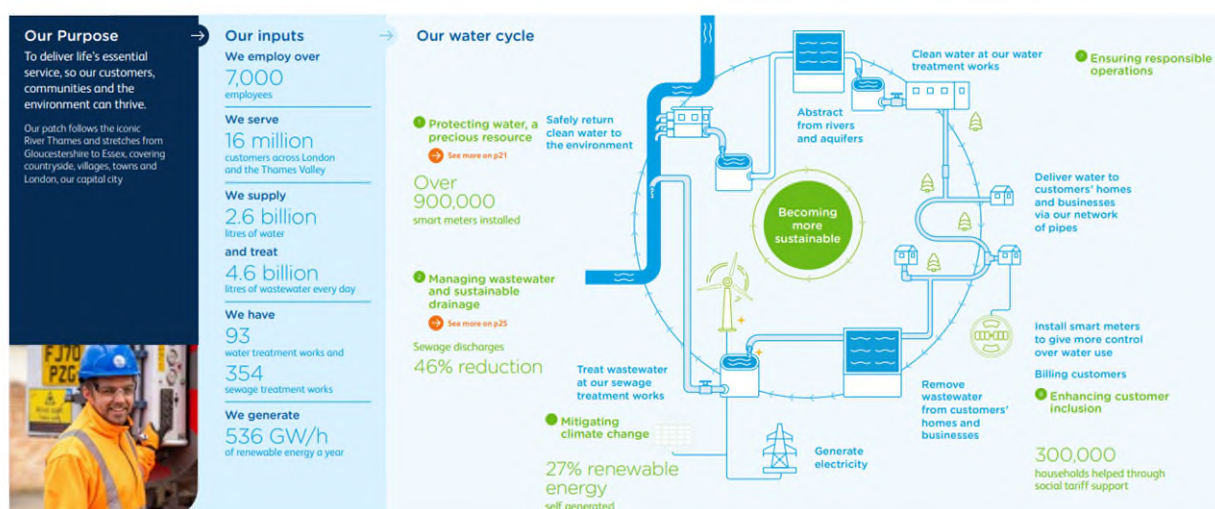
¹ All amounts and percentages are shown in 2017-18 price levels.

The performance commitments and incentives are set out in detail in the 2019 Final Determination and in the Thames Water company-specific appendix of the 2019 Final Determination.

PR24

In December 2022, Ofwat published the PR 24 Final Methodology that sets out the framework that it will use for the next price control period running from 1 April 2025 to 31 March 2030. It is broadly a continuation of PR19 albeit with a change of emphasis away from base costs, where Ofwat expect a step change in efficiency and performance, but with stronger and wider delivery incentives. Ofwat will impose 23 performance commitments that will be common across all water and sewage companies and each will come with a meaningful financial incentive. Bespoke performance commitments will be limited to just 2 or 3 in number. A key feature of the approach is the focus on outcomes and ODIs. Financial gearing in the notional capital structure was reduced from 60% to 55% and Ofwat set out an indicative early view of the appointee cost of capital of 3.29% (CPIH real) and a wholesale cost of capital at 3.23% (CPIH real), though this will be updated with market data as part of the draft and final determinations of PR24 and TWUL has proposed the appointee cost of capital of 4.25% (CPIH real) and a wholesale cost of capital at 4.25% (CPIH real).

Thames Water submitted a draft business plan for AMP8 to Ofwat on 2 October 2023. Ofwat’s draft determination is expected to be published in mid-2024 and its final determination is expected in December 2024. The general characteristics of Ofwat’s approach to price controls and a summary of the current status of the PR24 Price Control are described in Chapter 6 “*Regulation of the Water and Wastewater Industry in England and Wales*”.



Purpose

The Board of TWUL, supported by the Executive Team, has agreed that everything it does will be consistent with TWUL’s “Purpose”, which is “to deliver life’s essential service, so its customers, communities and the environment can thrive”.

Refocused turnaround

In June 2023, Cathryn Ross and Alastair Cochran were appointed as Interim Co-CEOs, with a firm focus on stepping up the delivery of TWUL’s turnaround. A search is currently ongoing for a permanent CEO.

Given an urgent need to deliver better performance, TWUL is transitioning to a more focused turnaround plan. This approach focuses expenditure on a smaller number of initiatives that will stabilise and improve targeted key performance metrics over the next three years.

TWUL's refocused turnaround plan is built on a robust financial position. The business had £4.4 billion of liquidity at the end of the financial year ending 31 March 2023. TWUL's shareholders have continued to support the business through additional funding. They committed £500 million of funding during FY23, which was drawn in March 2023.

The TWU Financing Group is currently working with the Kemble Shareholders to agree on and to facilitate the making of additional commitments to fund an additional £750 million assumed in TWUL's internal business plan (the "**Additional Shareholder Funding**") and to acknowledge the possibility of further equity investment in the medium-term significantly in excess of the current shareholder commitment. Indicatively, this is expected to be in the region of £2.5 billion, but the nature and amount of such medium-term support will depend on finalisation of the business plan and the regulatory framework that will apply to the AMP8 period. In addition, TWUL (with Kemble Shareholder input) is in discussions with Ofwat regarding TWUL's regulatory arrangements.

The Kemble Shareholders have evidenced their support for TWUL through a support letter in July 2023 (which replaces the support letter entered into in June 2022), where the Kemble Shareholders committed to fund the Additional Shareholder Funding if certain conditions are met (and have undertaken to hold investment committee meetings in respect of the Additional Shareholder Funding if certain milestone conditions are met and subject to approval, negotiate in good faith commitment letters), including:

- investment committee approval by each Kemble Shareholder on a several basis, not a joint and several basis;
- satisfactory regulatory arrangements being agreed, business plan finalisation, no lock-up, trigger event or event of default under TWUL's financings, ratings requirements aligned to the cash lock-up requirements in TWUL's licence and execution of definitive finance documentation; and
- no insolvency, special administration, change to position in the ring-fencing certificate, nationalisation or shareholder funding illegality.

However, there is no certainty that the Additional Shareholder Funding (or any additional funding in excess of the Additional Shareholder Funding) will be forthcoming and the provision of funds, including in respect of raising funds through the issuance of further shareholder funding and equity investment, could be vetoed by a shareholder or shareholders under the governance arrangements between the shareholders. TWUL will carefully monitor on a regular basis progress towards achieving Additional Shareholder Funding and satisfaction of the conditions for this, and keep under review pathways to ensure the TWU Financing Group's continued financial resilience. In the scenario where such conditions were not met and/or funding was not forthcoming, TWUL would consider all options available at that time and this could result in TWUL needing to revise its business plan to fit with the available funding, and adjust total expenditure down accordingly and/or consider contingency planning (as set out above). Implementing a revised business plan and/or implementing contingency planning would deliver less for customers, communities and the environment and, at that time, may result in TWUL not having available to it sufficient financial resources and facilities to enable it to fund the regulated activities necessary to fulfil in full its obligations under the Instrument of Appointment.

During FY23, progress was made in embedding the foundations of a turnaround in TWUL's performance. Progress includes:

- a restructured regional operating model;
- bringing all customer-facing telephone teams back onshore from South Africa to Swindon;
- insourcing the repair and maintenance of TWUL's water network; and
- customer complaints have continued to fall significantly.

These structural changes are bringing the business closer to customers and will deliver performance improvements while creating good quality local jobs. TWUL's record levels of investment continue with £3.1 billion invested in the

asset network since the launch of the turnaround in 2021, £1.8 billion of which was invested in FY23. A detailed review of TWUL's ageing Victorian asset infrastructure is now being undertaken to determine what needs to be done to improve operational resilience and performance over the long-term.

More information about progress is outlined in TWUL's Annual Report for FY23 (publicly available on TWUL's website at www.thameswater.co.uk).

TWUL outsourcing activities

TWUL continues to monitor and comply with the Outsourcing Policy as detailed under the Common Terms Agreement. This includes acting as a reasonably prudent water and sewerage undertaker and in accordance with Good Industry Practice.

TWUL has successfully mobilised its waste field operations activity and concluded its water network re-bid with an outsourced scope including Developer Services and Small to Medium capital delivery projects. TWUL has awarded 3 new providers under these contracts which are currently being mobilised. TWUL finalised its BPO activity in its Retail division awarding to 3 new providers to support customer communications and engagement whilst moving the majority of its call handling back to the UK.

Operations

Operations is responsible for all aspects of TWUL's 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 a 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.

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.

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 TWUL's data quality, minimising events and limiting TWUL's 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

Water abstraction & management of water resources

Water resources fall into two basic categories: surface water (primarily sourced from rivers) and groundwater (principally from aquifers). Abstractions from these sources are made in line with 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, by sections 37A-37D of the Water Industry Act 1991, 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, called WRMP19, sets out how TWUL aims to meet predicted demand for water for the period from 2020 to 2100, ensuring enough water is available to meet customers' needs. TWUL received approval for its Water Resources Management Plan covering the 80-year period from 2020-2100 from DEFRA in March 2020. While WRMP19 is TWUL's current plan, TWUL are also working on the next iteration of its Water Resources Management Plan, WRMP24. TWUL's draft WRMP24 was published in December 2022 for statutory public consultation, and its revised draft plan was published in August 2023 in response to representations raised in the consultation, new information and new policy requirements, alongside a "Statement of Response" in which all representations raised in the consultation were addressed. The draft WRMP24 was produced collaboratively with the Water Resources South East ("**WRSE**") Regional Group, an alliance of the water companies in the South East of England, in line with the requirements of the National Framework for Water Resources, published in 2020, which strengthened the need for water companies to work together as regional groups. Both TWUL's WRMP19 and draft WRMP24 identify the key issues which TWUL must consider when ensuring a resilient water supply. These issues are population growth, the changing climate, the need to reduce abstractions to protect the environment and the need to improve the level of resilience which is offered.

In response to these challenges, 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. Demand management efforts on their own will not be sufficient to ensure resilient supplies, and so alongside these demand management efforts, TWUL's Water Resources Management Plan sets out the need to develop new sources of water. Investigation into new sources of water is being progressed through the "Strategic Regional Options" ("**SRO**") workstream, which is led by the Regulators' Alliance for Progressing Infrastructure Development ("**RAPID**"), an alliance of TWUL's three regulators, the Environment Agency, Ofwat and the Drinking Water Inspectorate. TWUL's revised draft WRMP24 sets out the need for two new strategic water resources options, firstly, a new abstraction supported by water recycling in London and secondly, a new storage reservoir in Oxfordshire which will be shared to provide water to multiple companies.

In addition to the Water Resources Management Plan, which sets out the actions which TWUL needs to take in the medium and long term to ensure a resilient water supply, TWUL also produces and maintains its Drought Plan in

accordance with Sections 39B-39D of the Water Industry Act 1991. The TWUL drought plan describes the actions which it would take during a drought to maintain supplies, including when it would implement different demand-side (e.g., Temporary Use Bans, sometimes referred to as hosepipe bans) or supply-side (e.g., drought permits) actions. The draft Drought Plan was published for public consultation in 2021 and revisions were subsequently made resulting in the submission of a revised draft Drought Plan in April 2022. TWUL received approval from DEFRA in August 2022 to publish its revised draft Drought Plan as the Final Drought Plan 2022. In the drought plan, TWUL forecast the impacts of drought events, using methodologies which are capable of predicting the risk to the security of supply. The drought plan also demonstrates TWUL's forward planning, as it outlines the sequencing of measures that would be taken during a drought event, how this minimises the need for emergency measures, how the timing of implementation of measures ensures that there is sufficient time for their implementation, how TWUL would communicate with customers, and assesses the forecast effectiveness of the drought plan against TWUL's planned levels of service.

The amount of water which TWUL can abstract from the environment is governed by abstraction licences. TWUL has a licence to abstract from each source which is used for public water supply, with a licence specifying the amount of water which can be taken during any 24-hour period and over the course of a year, as well as any other conditions (e.g., licensed abstraction may be reduced when river flows are low to protect the environment, or aggregate abstraction across several sources may be subject to a licence condition). Abstraction licence reforms are currently being proposed by DEFRA, and a key element of these reforms are the proposed incorporation of the water abstraction regime into the environmental permitting regime set out in the Environmental Permitting Regulations 2016. DEFRA commenced a 12-week consultation in September 2021 which closed in December 2021. In March 2023, the Government published their response to the consultation in which it stated that it did not find it necessary to amend the proposal and that the proposed amendments would be laid before parliament.

A recent change to the licensing regime is that the Environment Act 2021 amended the Water Industry Act 1991 to give the EA powers to revoke or vary permanent abstraction licences without the need to pay compensation and without having to seek direction from the Secretary of State. Specifically, it sets out that on or after 1 January 2028, the EA would be able to:

1. revoke or vary an abstraction licence where the change is necessary to protect the environment; and
2. vary a licence to reduce the permitted volume where the abstraction licence is consistently underused over an assessment period of 12 years if the quantity abstracted did not exceed 75 per cent. of the volume authorised by the abstraction licence in each year of the 12 year period.

Further to this, in November 2021, the EA published a new "licence capping" policy to meet the WFD no deterioration driver under abstraction reform. This signalled the need to cap some licences to either recent historical maximum and/or recent historical average levels to protect the environment from the impact of future growth in water demand. This policy would take immediate effect and would apply at any licence application, variation or renewal.

Renewal of time-limited abstraction licences upon their expiry is also not guaranteed. The EA adopts a three-fold test when considering licence renewal upon expiry of time limited licences:

1. abstraction must be sustainable;
2. the abstractor has a reasonable need for the water; and
3. the abstractor will use the water efficiently.

Water treatment

Given that water is a finite resource, TWUL recognises the importance of promoting its responsible use, and facilitating 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 2016 by the UK Parliament and regulated by the Drinking Water Inspectorate (“DWI”). Many of the parameters monitored are derived from the EU Drinking Water Directive but some national requirements are also included.

In AMP7 Ofwat and the DWI have set a common performance commitment for all companies entitled the Compliance Risk Index. The performance commitment is a measure devised by the DWI and supported by the industry which assesses the risk arising from treated water compliance exceedances. The target for CRI has been set as zero by regulators as the performance commitment relates to wholesomeness of drinking water. In the calendar year 2022, TWUL’s CRI score was 10.96, which is above the industry average of 3.57, driven by three coliform detections at Hampton WTW and one at Coppermills WTW.

To ensure TWUL provides a consistently high-quality product to its customers, nearly 500,000 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.32,000km 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 water supply system and reduce leakage. In 2016/17, TWUL missed its leakage target for the first time in eleven years and the target was missed again in each of the following two years. 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. 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 in 2019/20.

The recovery plan was successful and TWUL met its leakage targets in 2019/20, 2020/21, and 2021/22. The 2020/21 leakage level of 639 MI/d (rolling 3-year average) was lower than the target level of 646.8 MI/d (rolling 3-year average) and the 2021/22 leakage level of 605.6 MI/d (rolling 3-yr average) was on mark against the target level of 605.6 MI/d. Due to the exceptionally hot and dry summer in 2022, TWUL has seen significant increases in burst water mains and associated leakage during 2022/23. As a consequence, TWUL has signalled to Ofwat that it has missed the target for 2022/23. TWUL remain committed to its leakage target of reducing leakage by 20.5% over the

course of AMP 7 and has put in place additional resource and implemented heightened governance around leakage management to oversee its recovery plan.

Ofwat confirmed in January 2021 that many of the Section 19 undertakings related to leakage have been completed and are now considered closed. This includes the financial adjustments and bill rebates to customers. TWUL continue to provide six-monthly reports to Ofwat on compliance with the remaining undertakings. These are mainly related to customer engagement, operational oversight, and condition P. To date, ten reports have been submitted, in May and November of each year, from November 2018 to May 2023.

During 2021/22, TWUL created a Leakage Reporting and Insight Improvement Programme (LRIIP) which was designed to improve confidence in data and processes, improve resilience, provide greater accuracy, and apply consistency of reporting through assurance. In February 2023, TWUL successfully completed all 21 key deliverables that it had set out to deliver.

TWUL has been having regular meetings with Ofwat on its leakage performance and continues to publish quarterly updates on its website. Whilst TWUL met its leakage target in 2019/20, 2020/21 and 2021/22, it has missed the target for 2022/23. The underperformance was driven by last summer's drought which created elevated demand and ground movement as the soil dried out, placing additional strain on the network with an associated rise in leakage, followed by December's freeze/thaw event, which resulted in a spike in leakage as pipes were affected by the sudden change in temperature.

While TWUL is committed to reducing leakage by 20.5% by the end of AMP7 (compared to the 2019/20 baseline). Despite this, TWUL does not expect to meet the Ofwat performance commitment which is based on a three year rolling average, TWUL recognises that there is a lot to do to improve performance and recently launched a Leakage Transformation Programme which sets out to enhance TWUL's ability to tackle leakage and bring leakage performance back on track by the start of AMP8.

Wastewater collection

The collection of wastewater involves a network of over 109,000 km of sewers and over 5,100 sewage pumping stations. The wastewater collection strategy is to maintain a fully integrated approach to running the sewer system, including reducing the input of rainfall into the system, to reduce the volume of water in the network. (See the section entitled "Sewerage Asset Health" in Chapter 2 "Risk Factors" for further details on TWUL's sewerage system).

AMP6 saw TWUL begin to adopt eligible private sewage pumping stations, as required by the Water Industry (Schemes for Adoption of Private Sewers) Regulations 2011. This continues in AMP7 and as at 31 March 2023, TWUL has adopted 2043 private sewage pumping stations, with additional capital expenditure of around £17 million for the AMP and operating expenditure of around £2.2 million per annum.

Wastewater treatment

Wastewater is treated at 354 sewage treatment works, which are monitored to ensure that the treatment works comply with regulatory standards, through effective operation, risk assessments and focused investment. In 2022, TWUL was particularly impacted by challenging weather conditions, such as the summer drought and intense rainstorms in January and February. This resulted in increased pollutions and discharges having a greater impact, along with missing the performance commitment target. An updated Pollution Incident Reduction Plan will be published later in 2023. TWUL's treatment works discharge compliance for the calendar year 2022 was 99.48 per cent. compared to 98.96 per cent. in 2021. During 2022/23 TWUL's performance for internal flooding incidents improved on the previous year but did not meet the target, resulting in a regulatory penalty of £5.531 million.

TWUL continues to develop the London Flooding programme with oversight by the Health, Safety and Environment Committee to identify learning, drive improvements and address customer concerns in response to the severe flooding in summer 2021.

As detailed in Chapter 2 “*Risk Factors*” under the section “*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/disposals may take place (whether into controlled waters or onto land) as a result of failures in TWUL’s operational wastewater collection, treatment and/or recycling, or blockages and failures on the waste network. In certain circumstances these discharges/disposals can result in fines. For example, recent historic fines include:

- 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.
- In December 2018, TWUL was fined £2 million (reduced by £200,000 as TWUL had made donations to certain environmental projects) for a single offence under the Environmental Permitting Regulations (England and Wales) 2016 in relation to the discharge of sewage from the Bruern Road Sewage Pumping Station in August 2015. This was caused as a result of a pump failure and alarm communication failure. In July 2019, TWUL appealed unsuccessfully against the sentence imposed.
- In February 2021, TWUL was fined £2.3 million for a pollution incident at Henley STW which occurred in April 2016. The incident occurred as a result of alleged equipment failures and missed alarms.
- In May 2021, TWUL was fined £4 million for pollution incidents at Hogsmill STW caused by inlet pump failure and missed alarms resulting in pollution to a recreation ground between February 2016 and September 2019.
- In November 2021, TWUL was fined £4 million in relation to a pollution incident at Hinksey Stream, Oxford in July 2016. This was caused by a blockage in a part of the sewer network which the EA alleged should have been subject to regular pre-planned maintenance.
- In November 2021, the Environment Agency and Ofwat announced separate investigations into sewage treatment works across all water companies in England and Wales in relation to the release of unpermitted sewage discharges into rivers and watercourses.
- In July 2023, TWUL was fined £3.3m following admitting it had committed four permit breaches leading to a significant pollution at its Crawley Sewage Treatment Works site. This was caused by a storm pump erroneously operating for a number of hours causing flow to be pumped into the storm lagoon and then into the Gatwick Stream and River Mole.

For more information on current investigations by the EA and Ofwat, please see Chapter 2 (*Risk Factors - Environmental pollution offences*).

Counters Creek sewer flooding scheme

Over the last ten years on average c.150 properties have succumbed annually to internal hydraulic flooding. The estimated financial impact caused by internal sewer flooding is less than £1 million annually. Whilst unacceptable, this represents relatively good performance at the industry level. However, in 2020 and more recently in July 2021, TWUL has seen summer convective storms becoming a more regular occurrence. These short sharp intense summer storms, with as much as a month’s rainfall in a single event, are triggering hundreds of properties to flood on each occasion.

In AMP6, TWUL completed a flood alleviation scheme in Counters Creek to protect c.1,000 basements from sewer flooding. As a result, during the exceptional rainfall in July 2021 the majority of these properties were successfully protected from sewer flooding.

Following the storms, TWUL commissioned an Independent Flood Review (“**IFR**”) to understand why the flooding was so extensive and to specifically assess the performance of three recent flood alleviation schemes, including Counters Creek. The review found that the Counters Creek scheme protected almost all of the properties it was

designed to protect, despite the rainfall being significantly more intense than the scheme was designed for. The review also highlighted that there may be a large number of properties that hadn't reported being flooded and that TWUL should continue to gather information on flooded properties. It further noted that a 'strategic group' of organisations, including TWUL, should lead the development of a surface water management strategy for London. The London Surface Water Strategic Group ("LSWSG"), a high-level, multi-agency partnership of the key surface water flood risk management agencies, including the Greater London Authority, Transport for London, London Boroughs, the EA and TWUL, has been formed with the aim of driving collaboration between the partners on managing surface water in London. The LSWSG will also lead the development and delivery of a London-level surface water management strategy and associated action plans. The work programme for the LSWSG and the scope of the strategy has been informed by the recommendations of the London Flood Review (the "LFR") and other reviews on the July 2021 floods. TWUL will track and report annually on the delivery of the LFR's recommendations including those delivered by external parties and directly by TWUL. The final report for the Counters Creek study was published in July 2023.

Investment is being included as part of TWUL's medium to longer term planning to improve resilience to these types of events but is likely to entail multiple Asset Management Plans ("AMP") to address as part of TWUL's Water Resource Management Plan ("WRMP") and Drainage and Wastewater Management Plan ("DWMPs"). DWMP and WRMP require a more collaborative approach with others who are jointly responsible for drainage, flooding and water resource planning.

Disposal of bioresources

The production, treatment and recycling, reuse or disposal of sewage bioresources is controlled by comprehensive legislation. Treated bioresources are recycled to agricultural land as an organic fertiliser. Untreated bioresources are 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.

The proposals for AMP8 (April 2025-March 2030) are set out in Appendix 4 of Ofwat's PR24 Final Methodology published in December 2022. The PR24 Final Methodology set an efficiency challenge specifically tailored to the separate bioresources control as the market opens up to competition. Ofwat seeks to capture more costs (e.g., financing) through enhanced econometric cost benchmarking modelling. Ofwat stated that they will retain the appropriate regulatory protections for pre-2020 RCV, consistent with their commitment at PR19. Ofwat will exclude legacy assets from the application of the proposed catch-up efficiency challenge. Ofwat will set a separate adjustment for tax. This allowance would be added to the cost figures for bioresources produced by the econometric modelling. Ofwat have clarified that the asset base for bioresources for AMP8 will continue to be recorded as RCV. This is designed to ensure that an appropriate metric for gearing calculations continues to be available. The asset base will reflect companies' capital investment and depreciation. It is noted that the proposed methodology is not yet final and is subject to change.

Climate Change

TWUL continues to actively support and contribute to the mitigation of Greenhouse Gas emissions to mitigate the devastating impacts of climate change as a consequence of global warming. In 2019, TWUL made a pledge to reduce its operational net carbon emissions to zero by 2030. Since then, there have been some material changes to the assumptions used by the water sector that have a direct impact on the net zero challenge. These include:

- Changes to TWUL's understanding of the levels of reported emissions associated with the wastewater treatment process, particularly of Nitrous Oxide, a significant operational emission;
- An increase in operational emissions due to an improved understanding of TWUL's underlying assumptions and changes to scope boundary;

- Additional carbon impacts associated with increases in treatment standards; and
- Guidance from the Secretary of State for the Environment to consider phasing non-statutory commitments, including net zero, to future price review periods where appropriate, reflecting concerns around customer affordability, deliverability and financeability of PR24 plans.

Whilst these developments do not change TWUL's desire to achieve Net Zero, TWUL is still working to fully understand the challenges and opportunities they present and how these will impact on net zero plans.

Retail

Description

Retail is principally responsible for 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.

Through Wholesale Market Services, Retail also has responsibility for the billing, payments, debt management, correspondence and complaints handling for retailers operating in the non-household retail market. The Retail function bears the risk of bad debt from both household customers and retailers.

Additionally, Retail's further responsibilities include the roll-out of the smart metering programme and servicing the developer market. Activities conducted include the provision of new water mains and sewers in consequence of new development activity taking place within the region, alongside invoicing for work in accordance with the Charging Arrangements document. This also includes co-ordinating with, and the adoption of, any pipework laid by external self-lay providers.

As the primary customer-facing function of Thames Water, Retail 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 3.6 million households with water and wastewater services and bills these domestic customers directly. A further 2.0 million households receive wastewater services from TWUL, with these domestic end users billed on TWUL's behalf by the relevant water supply company. These water supply companies are responsible for collecting payment from such domestic end users. TWUL recovers the charges for providing such wastewater only services from the water supply companies once they have collected payment from their respective domestic customers.

Non-household business

The gross revenue from TWUL's non-household business in the year to 31 March 2023 was £402.9 million, out of a total gross underlying revenue of £2,248.4 million. The company provides water and wastewater services to non-household end users, however 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 non-household end users who are customers of the retailers. Hence any bad debt associated with the non-household business relates to failure of a retailer rather than recoverability of non-household end users.

Retailers are mainly responsible for billing and collecting revenue from their non-household customers. Wholesalers such as TWUL receive payment for the provision of water and wastewater services to the end user via charges billed to retailers. Given the timing of when invoices are issued and when payment is received from its retailers, TWUL is typically owed around two months of revenue by the majority of the retailers it bills.

TWUL formally exited the retail non-household market on 1 April 2017 when it sold its non-household retail business to Castle Water. Castle Water is currently one of the largest independent business water suppliers in the UK. As at

the start of September 2021, it had the highest number of national water and waste tradable supply points at around 503,000, according to MOSL. On 1 April 2020 Castle Water merged with Affinity for Business (Retail) Limited, which provides water services to around 50,000 business customers throughout the UK. Typically Castle Water contributes around 11% of TWUL's total annual revenues and provides collateral to TWUL equivalent to around 30 to 40 days of non-household wholesale charges, which materially mitigates the bad debt risk of non-payment by Castle.

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 during AMP6 was measured by SIM. Ofwat has developed a new measure for AMP7, C-MeX. C-MeX (customer measure of experience), is Ofwat's new incentive, which is designed to improve the customer experience of residential customers in England and Wales.

Ofwat has also introduced a developer services measure of experience (D-MeX) to improve the customer experience of developer services customers in England and Wales. This measure is a combination of a survey-based measure of customer feedback alongside a quantitative component measuring compliance against a set of service metrics. Effective from 1 October 2020 the scope was increased to include new metrics relating to services provided to NAVs and the adoption of sewerage assets.

Each incentive mechanism is designed to:

- Encourage companies to improve customer experiences and innovate;
- Be simple and meaningful for companies and customers;
- Be proportionate;
- Be practical to implement; and
- Measure performance across companies consistently, reliably and fairly.

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

- Qualitative (Customer survey – Quarterly). 800 surveys in total were conducted by Ofwat on an annual basis over four separate weeks (one per quarter). No notice was given. The survey was 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). Included 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)

Based on TWUL’s SIM performance for the four-year aggregate period of 2015/16 to 2018/19, Ofwat calculated the SIM penalty to be £102.8 million (2017/18 CPIH prices). This penalty was incorporated within Ofwat’s 2019 Final Determination of allowed revenues for the 1 April 2020 to 31 March 2025 period.

As per Ofwat direction, the SIM and shadow C-MeX performance in 2019/20 was not used to define penalties hence no future impact on tariffs or revenue.

C-MeX is a mechanism from Ofwat designed to incentivise excellent levels of service for residential customers in the water sector. Following the 2019/20 shadow year, C-MeX was operational and annual financial incentives were in place for AMP 7 which covers the period from 1st April 2020 to 31st March 2025.

C-MeX is a common performance commitment across the water sector. Each company receives a C-MeX score based on the results from two surveys:

1. Customer Service Survey – a survey of customers who have contacted the company which asks them how satisfied they are with how the company has handled their issue; and
2. Customer Experience survey – a customer satisfaction survey of a randomly selected sample of a company’s overall residential customer base which asks them how satisfied they are with their company.

Both survey scores contribute equally to the overall C-MeX score for each company. Each company is given a score out of 100 and ranked compared to others in the sector. The company that is at the bottom of the league table receives a penalty of 12% of their Residential Retail Revenue, the company that is 9th /median receives neither reward nor penalty and the company that is top receives a reward of 6% of their Residential Retail Revenue. Companies ranking 2nd -8th get a reward on a sliding scale based on proximity to the top-ranking company. Companies ranking 10th - 16th get a penalty on a sliding scale based on proximity to the median scoring company and distance from the bottom scoring company.

In 2021/22 and 2022/23, Thames Water received the maximum penalty for C-MeX performance of 12% of Residential Retail Revenues which equated to £16.0 million for 2021/22 and £13.1 million for 2022/23 (2017/18 CPIH prices). The former impacted Thames Water’s 2022/23 allowed revenues by £26.1 million after inflation and tax adjustment.

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 across metered and unmetered household customers during the 2022/23 billing period was £417. The average combined bill for 2022/23 across England and Wales was also £417 (Source: Water UK).

Ofwat’s Final Determination for AMP7 for Thames Water gives customers a 7 per cent. cut in tariffs (real terms 2017/18 prices)

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Final Determination..... | £389 | £366 | £371 | £369 | £365 | £361 |

Affordability and supporting vulnerable customers who regularly have difficulties in paying their bills is of great importance for Retail household, and AMP7 includes a common performance commitment “Priority services for customers in vulnerable circumstances” and two bespoke performance commitments “Households on the Thames Water social tariff” and “Percentage of satisfied vulnerable customers”, which focus on this area of importance.

Note that Ofwat has profiled bills to broadly remain flat over the AMP, except for 2021/22, where a material reduction to the leakage rebate resulted in an increase to the otherwise flat bill profile. The rebate was secured for customers as a result of the section 19 undertaking, as accepted in late 2019 following Thames Water’s under performance on leakage and security of supply.

In 2023/24 Thames Water will take a revenue penalty (£1.7m) in respect of exceeding tolerance levels of under-recovery of revenue in the 2021/22 charging year. The penalty was spread across the water network, wastewater networks and TTT price controls, thus being spread across the household and non-household population served by Thames Water. This is in addition to the CMEX penalty mentioned above. According to Ofwat’s press release PN 32/22 dated 3 October 2022 and PN 36/22 dated 15 November 2022, TWUL will be required to reduce customer bills in 2023/24 by £51 million due to missed targets on areas such as water supply interruptions, pollution incidents and internal sewer flooding. On 26 September 2023, Ofwat published a draft determination of TWUL’s in period ODI outcomes for 2022/23 (including C-MeX & D-MeX) and calculated that TWUL will be required to reduce customer bills in 2024/25 by £100.719 million.

Metering customers

Thames Water’s water supply area was designated as being in an area of serious water stress and, in 2012 legal powers were granted to Thames Water to compulsory meter properties across their area by the Secretary of State. In the Water Resources Management Plan 2014 (WRMP14), this led to the Progressive Metering Programme (PMP) being initiated. In their Water Resources Management Plan 2019 (WRMP19), Thames Water have forecast that the domestic metering programme will be complete in London by 2030 and Thames Valley by 2035. In their latest Water Resources Management Plan 2024 (WRMP24) Thames Water are forecasting that with the introduction of a largescale upgrade programme of basic meters to smart meters commencing in 2025, complementing the Progressive Metering Programme, they will have a smart meter on all practicable connections.

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 Water Industry Act, regulated water and wastewater companies are prohibited from disconnecting household customers from their water supply for failure to pay bills. TWUL uses a dedicated billing call centre and contacts customers who are in arrears to arrange payment plans wherever possible. In accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it forms part of domestic law by virtue of the EUWA as it applies in the UK, TWUL’s total bad debt charge as a percentage of appointed revenue was 4.0 per cent. for 2022/23, up from 3.2 per cent. for 2021/22.

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 be collected on TWUL’s behalf (for debtors in relation to TWUL’s water business only). This judgement as at 31 March 2023 for the 2022/23 period was reviewed

by TWUL's Audit, Risk & Reporting Committee and TWUL's external auditors, PricewaterhouseCoopers LLP ("PwC") as part of their review of the annual financial statements. It is included in this Prospectus to allow potential Bondholders to better assess TWUL's performance and business.

Bad debt is a significant cost for TWUL and the largest single cost for its retail business. It is an area of major focus for TWUL which is implementing a transformation programme leveraging new investment in call centre technology to develop improvements in frontline skills, credit analysis capabilities and customer focused process improvements. With these changes TWUL is reducing the level of bad debt relative to revenue in AMP7 and AMP8.

Systems

As part of its commitment to customer service, AMP6 Retail implemented a new Customer Relationship Management & Billing system for its household customers. Further investment has been undertaken to deliver new call centre technology and TWUL continues to develop further self-serve capabilities for online customers. This is anticipated to deliver improvements across the retail household business including improved customer service and debt management.

AMP7 Key Committed Performance Levels and Financial ODIs

The following committed performance levels ("CPL") provide a snapshot of performance during 2022/23. Under TWUL's internal assessment measures, each CPL is rated Green, Amber or Red (as defined below):

- Green – performance at or above the committed performance level;
- Amber – performance within the range allowed without a penalty (the 'dead band') or, if not within 5 per cent. of TWUL's committed performance level, or by exception, where management are confident of a year-end position that will meet the criteria; and
- Red – performance in penalty or more than 5 per cent. adverse to TWUL's committed performance level.

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, reference to further detail in the Annual Performance Report 2022/23 has been included. Further explanations on the main causes behind some of the underperformances are set out directly after the table.

The financial incentives by performance commitment for AMP7 are also set out in the table below, under the column "2022/23 Outperformance or Underperformance payment (£m)".

| Performance commitment | 2020/21 performance level - actual | 2021/22 performance level – actual | 2022/23 performance level - actual | 2023/24 performance level - actual | 2024/25 performance level - actual | 2022/23 CPL met? | Details where 2022/23 CPL has not been met / performance improvements being focused | 2022/23 Outperformance or Underperformance payment (£m) | Forecast of total 2020-25 outperformance or underperformance payment (£m) |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------|---|---|---|
| BW06a Water Quality Compliance (CRI) | 2.42 | 2.59 | 10.96 | | | No | See p.29 of the Annual Performance Report 2022/23 | (16.043) | (19.273) |
| BW03 Water Supply Interruptions | 00:13:39 | 00:11:03 | 00:19:54 | | | No | See p.28 of the Annual Performance Report 2022/23 | (20.022) | (52.711) |
| BW04 Leakage | 5.4 | 10.2 | 10.7 | | | No | See p.25 of the Annual Performance Report 2022/23 | (8.908) | (36.773) |
| BW05 Per Capita Consumption | (1.5) | (1) | 0 | | | No | See p.27 of the Annual Performance Report 2022/23 | 0.000 | (3.410) |
| BW01 Mains Repairs | 269.6 | 223.3 | 316.8 | | | No | See p.30 of the Annual Performance Report 2022/23 | (16.674) | (30.811) |
| BW02 Unplanned Outage | 1.76 | 2.24 | 2.65 | | | Yes | - | 0.000 | 0.000 |
| BW07 Properties at risk of receiving low pressure | 15 | 5 | 7 | | | Yes | - | 0.000 | (0.105) |
| BW08 Acceptability of water to consumers | 0.54 | 0.49 | 0.44 | | | Yes | - | 0.000 | 0.000 |
| BW09 Water quality events | 5 | 6 | 12 | | | No | See p.44 of the Annual Performance Report 2022/23 | (0.142) | (0.142) |
| BW10 Reducing risk of lead | 10,919 | 25,869 | 39,257 | | | Yes | - | 0.689 | 1.933 |
| DW02 Security of | 100 | 100 | 99 | | | No | See p.46 of the Annual Performance Report 2022/23 | (0.224) | (0.224) |

| Performance commitment | 2020/21 performance level - actual | 2021/22 performance level – actual | 2022/23 performance level - actual | 2023/24 performance level - actual | 2024/25 performance level - actual | 2022/23 CPL met? | Details where 2022/23 CPL has not been met / performance improvements being focused | 2022/23 Outperformance or Underperformance payment (£m) | Forecast of total 2020-25 outperformance or underperformance payment (£m) |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------|---|---|---|
| supply index SoSI | | | | | | | | | |
| DWS01 Power resilience | 2 | 4 | 4 | | | No | See p.46 of the Annual Performance Report 2022/23 | 0.000 | (10.195) |
| DWS02 SEMD – Securing sites (2020-25 projects) | 0.0 | 28.6 | 53.6 | | | Yes | - | 0.000 | (3.115) |
| DWS03 SEMD – Securing sites (legacy projects) | 34.5 | 39.4 | 68.2 | | | Yes | - | 0.000 | 0.000 |
| ER01 Unregistered Household Properties | Process not complete | Process not complete | Process not complete | | | No | See p.41 of the Annual Performance Report 2022/23 | (0.211) | (0.633) |
| ER02 Empty household properties | 3.70 | 3.42 | 3.30 | | | Yes | - | 0.231 | 0.309 |
| EW01 Abstraction Incentive Mechanism (AIM) | (31.8) | (32.2) | 44.2 | | | No | See p.50 of the Annual Performance Report 2022/23 | 0.000 | 0.000 |
| EWS08 Empty business properties | 5,690 | 4,362 | 2,442 | | | Yes | - | 0.278 | 1.873 |
| M01 Installing new smart meters in London | 53,129 | 164,078 | 246,325 | | | Yes | - | 0.000 | 0.000 |
| M02 Replacing existing | 20,740 | 60,461 | 91,624 | | | Yes | - | 0.000 | 0.000 |

| Performance commitment | 2020/21 performance level - actual | 2021/22 performance level – actual | 2022/23 performance level - actual | 2023/24 performance level - actual | 2024/25 performance level - actual | 2022/23 CPL met? | Details where 2022/23 CPL has not been met / performance improvements being focused | 2022/23 Outperformance or Underperformance payment (£m) | Forecast of total 2020-25 outperformance or underperformance payment (£m) |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------|---|---|---|
| meters with smart meters in London | | | | | | | | | |
| CS03 - Internal sewer flooding | 2.31 | 3.46 | 1.91 | | | No | See p.32 of the Annual Performance Report 2022/23 | (28.831) | (60.678) |
| ES01 Pollution incidents | 26.67 | 24.87 | 30.37 | | | No | See p.33 of the Annual Performance Report 2022/23 | (9.345) | (47.309) |
| CS02 Sewer collapses | 3.96 | 3.78 | To be populated | | | Yes | - | 0.340 | 0.628 |
| CS01 Treatment works compliance | 99.74 | 98.96 | 99.48 | | | No | See p.35 of the Annual Performance Report 2022/23 | 0.000 | (0.246) |
| CS04 Clearance of blockages | 76,223 | 74,569 | 73,780 | | | No | See p.47 of the Annual Performance Report 2022/23 | (8.811) | (27.740) |
| CS05 Sewage pumping station availability | 98.2 | 97.7 | 97.8 | | | Yes | - | 0.000 | 0.000 |
| DS02 Surface water management | 0.00 | 0.11 | 0.66 | | | No | See p.52 of the Annual Performance Report 2022/23 | 0.000 | (2.559) |
| ES02 Environmental measures delivered | 182 | 433 | 536 | | | Yes | - | 0.000 | (2.822) |
| ES03 Sludge treated before disposal | 99.6 | 99.2 | 99.4 | | | Yes | - | 0.000 | 0.000 |
| ET01 Readiness to receive tunnel | N/A | N/A | N/A | | | N/A | See p.57 of the Annual Performance Report 2022/23 | 0.000 | 0.000 |

| Performance commitment | 2020/21 performance level - actual | 2021/22 performance level – actual | 2022/23 performance level - actual | 2023/24 performance level - actual | 2024/25 performance level - actual | 2022/23 CPL met? | Details where 2022/23 CPL has not been met / performance improvements being focused | 2022/23 Outperformance or Underperformance payment (£m) | Forecast of total 2020-25 outperformance or underperformance payment (£m) |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------|---|---|---|
| flow at Beckton STW | | | | | | | | | |
| ET04 Critical asset readiness for the London Tideway Tunnels | N/A | N/A | N/A | | | N/A | See p.58 of the Annual Performance Report 2022/23 | 0.000 | 0.000 |
| EWS01 Enhancing biodiversity | 97 | 302 | 331 | | | No | See p.53 of the Annual Performance Report 2022/23 | 0.000 | 0.000 |
| EWS02 Smarter Water Catchment Initiatives | 0 | 3 | 3 | | | Yes | - | 0.000 | 0.000 |
| EWS03 Renewable energy produced | 476 | 510 | 536 | | | Yes | - | 2.096 | 6.886 |
| ET07 Managing early handback of Tideway project land | 3 | 0 | 6 | | | Yes | - | 0.000 | 5.120 |
| AR01 Annual C–MeX score | 72.91 | 68.86 | 67.06 | | | N/A | See p.23 of the Annual Performance Report 2022/23 | (13.121) | (64.671) |
| AWS01 D-MeX score | 77.56 | 79.64 | 80.46 | | | N/A | See p.36 of the Annual Performance Report 2022/23 | (5.680) | (25.544) |
| DW01 Risk of severe restrictions in a drought | 88.5 | 88.5 | 93.9 | | | No | See p.37 of the Annual Performance Report 2022/23 | - | - |

| Performance commitment | 2020/21 performance level - actual | 2021/22 performance level – actual | 2022/23 performance level - actual | 2023/24 performance level - actual | 2024/25 performance level - actual | 2022/23 CPL met? | Details where 2022/23 CPL has not been met / performance improvements being focused | 2022/23 Outperformance or Underperformance payment (£m) | Forecast of total 2020-25 outperformance or underperformance payment (£m) |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------|---|---|---|
| AR06 Priority services for customers in vulnerable circumstances | 3.5/56.8/18.3 | 5.0/93.4/45.4 | 6.2/93.7/47.4 | | | Yes | - | - | - |
| DS01 Risk of sewer flooding in a storm | 10.25 | 10.25 | 10.25 | | | Yes | - | - | - |
| AR05 Percentage of satisfied vulnerable customers | 85 | 85 | 88 | | | No | See p.39 of the Annual Performance Report 2022/23 | - | - |
| AWS02 Proactive customer engagement | 37,095 | 101210 | 136,796 | | | No | See p.42 of the Annual Performance Report 2022/23 | - | - |
| BW11 Responding to major trunk mains bursts | 00:05:15 | 00:03:44 | 00:08:54 | | | No | See p.45 of the Annual Performance Report 2022/23 | - | - |
| ER03 Households on the Thames Water social tariff | 210,731 | 267,033 | 306,506 | | | Yes | - | - | - |
| ET02 Effective stakeholder engagement | 5.1 | 4.9 | 5.1 | | | Yes | - | - | - |
| ET05 Establish an effective system operator for the London | 19 | 48 | 65 | | | Yes | - | - | - |

| Performance commitment | 2020/21 performance level - actual | 2021/22 performance level – actual | 2022/23 performance level - actual | 2023/24 performance level - actual | 2024/25 performance level - actual | 2022/23 CPL met? | Details where 2022/23 CPL has not been met / performance improvements being focused | 2022/23 Outperformance or Underperformance payment (£m) | Forecast of total 2020-25 outperformance or underperformance payment (£m) |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------|---|---|---|
| Tideway Tunnels | | | | | | | | | |
| ET06 Maximising the value of Tideway project land sales | 0.0 | 0.0 | 0.0 | | | Yes | - | - | - |
| EWS04 Natural Capital Accounting | 100 | 100 | 100 | | | Yes | - | - | - |
| AR07 BSI for fair, flexible inclusive services | Achieved | Maintained | Maintained | | | Yes | - | - | - |
| NEP01 WINEP Delivery | Not met | Not met | Not met | | | No | See p.51 of the Annual Performance Report 2022/23 | - | - |
| DWMP Delivery of DWMPs | 0 | 0 | 100 | | | Yes | - | - | - |
| CC Understanding the risk of flooding in the Counters Creek catchment | N/A | N/A | N/A | | | N/A | See p.55 of the Annual Performance Report 2022/23 | - | - |
| Trunk mains renewal (London network conditional allowance) | N/A | N/A | N/A | | | Yes | - | - | - |
| Future London strategy (London network) | N/A | N/A | N/A | | | Yes | - | - | - |

| Performance commitment | 2020/21 performance level - actual | 2021/22 performance level – actual | 2022/23 performance level - actual | 2023/24 performance level - actual | 2024/25 performance level - actual | 2022/23 CPL met? | Details where 2022/23 CPL has not been met / performance improvements being focused | 2022/23 Outperformance or Underperformance payment (£m) | Forecast of total 2020-25 outperformance or underperformance payment (£m) |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------|---|---|---|
| conditional allowance) | | | | | | | | | |
| Data validation (London network conditional allowance) | N/A | N/A | N/A | | | Yes | - | - | - |

The main causes behind these ODI underperformances are:

- £28.8m for internal sewer flooding. TWUL's performance has been affected by "one off" weather events, particularly in London where the built-up environment means heavy rain fall causes more sewer flooding than in the Thames Valley. For example, storms in August 2022 resulted in hydraulic floods being 600% over target, while the wet November 2022 increased hydraulic floods to 140% over target. TWUL is conducting a review of planned activities and focusing on blowbacks and repeat floods, both of which should be preventable. TWUL will improve triaging at the first customer contact point and also data collection at the first touch point from the engineer. This will allow quicker investigation and more efficient and accurate scheduling of follow-on work, whilst also allowing TWUL's teams more time to analyse floods and identify trends to improve proactive options to prevent flooding;
- £20.0m for water supply interruptions. Whilst TWUL's underlying performance is improving, the asset health of its network is fragile, and the dramatic range of temperatures experienced in the year caused a series of exceptional operational incidents. TWUL's 2022/23 performance has been impacted by five significant events, in order of significance: (i) 05:49 Oxford Event (October 22); (ii) 02:06 Belsize Road, NW6 (December 22); (iii) 01:44 Netley Mill WTW (August 22); (iv) 00:54 Ladymead WTW (November 22); and (v) 00:44 New Mill Lane, OX29 (July 22). Excluding these events, TWUL's overall outturn is much closer to its target at 08:38. TWUL is investing £12m on water production resilience, focusing on power resilience, critical spares, and resourcing, and will minimise the impact of operational incidents by creating a full-time incident management team and by making sure that it has 24/7 capacity to deliver bottled water to Thames Water's most vulnerable customers. TWUL plans to make more use of tankers to bring customer back in supply and is analysing data from its pressure loggers to understand impacts during supply interruptions;
- £16.0m for water quality compliance. TWUL's CRI performance this year has been affected by four microbiological incidents caused by ingress into the contact tank at: (i) Coppermills WTW (February 2022); and (ii) Hampton WTW (September 2022 – three incidents). The size of these sites means that any incidents have a much greater impact on overall performance than an equivalent incident at a Thames Valley site. These incidents have been assessed as being unlikely to impact on public health. In 2022/23 TWUL took immediate action to cover its contact tanks at both Hampton and Coppermills WTWs to address the risk of ingress whilst major capital improvement schemes are on schedule for completion in 2023/24. In addition, TWUL's investment programme aims to maintain or improve its assets' health. For example, in 2023/24, TWUL is rolling out 'fix it' plans identifying and addressing water quality risks across six sites (Fobney, Netley, Kempton, Coppermills, Ashford & Hampton). TWUL will also continue to develop its training and competency and make sure that it has clear and up to date procedures and documentation;
- £16.7m for mains repairs. Mains repairs have significantly increased from last year, which means TWUL is doing more work than anticipated. The drought in summer 2022 created an unprecedented 'soil moisture deficit', with ground drying out, which contributed to a significant increase in visible leaks requiring burst repairs. The wet autumn and December freeze/thaw that followed meant further ground movement and an increase in the number of bursts on TWUL's network. For example, mains repair volume in December 2022 was 46% greater than at any equivalent time in the last ten years. The drought also meant that there was an increase in demand and TWUL had to pump more water through its pipes at higher rates, causing more leaks. TWUL initiated a leakage recovery plan in late

summer 2022, significantly increasing the leakage detection activity and mains repairs undertaken to control overall leakage. Over the next three years, TWUL will spend close to £200m replacing water mains most prone to bursting. TWUL's calm systems programme enables it to prioritise its mains replacement using data on burst frequency, supply interruption hotspots and leakage sensitive areas. TWUL is investing in more surge loggers to proactively identify and address potential bursts ;

- £8.9m for leakage. At the beginning of July 2022, TWUL was broadly tracking in line with its Year 3 trajectory. However, the hot summer, with record high daily temperatures and prolonged dry weather, meant that TWUL had to run many of its water supply sites and pumps at full capacity to accommodate the large increases in customer demand. The prolonged dry weather caused the ground to move as it dried out, which placed stresses on buried pipes, leading to an increase in breaks and leakage. During December, leakage performance was further impacted by the substantial freeze-thaw event when minimum temperatures moved rapidly from a prolonged period of below freezing to 10.9 degrees in air temperature. TWUL subsequently launched the Leakage Transformation Programme (LTP) to improve its ability to tackle leakage and bring its performance back on track; and
- £8.8m for blockages. TWUL's performance has improved slightly on 2021/22, but customers' behaviour continues to be a problem as approximately 80% of blockage clearances are caused by customer related issues (fat, oils and greases or wet wipes). TWUL is reviewing its resource and vehicle availability to ensure a prompt, 'right first time' response. TWUL is also continuing to improve the analysis informing its planned programme so that blockages are proactively cleared from the most problematic areas of the network. This should also reduce sewer flooding risk.

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 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 which was commissioned in January 2016. Following these improvements, the combined sewerage discharges into the River Thames are estimated to have reduced in volume by 55% since 2010 (when investment in the Sewage Treatment Upgrade Works commenced). It is these remaining discharges which the TTT Project is designed to address, with a planned further 40% reduction (against 2010 levels).

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 UWWTB*".

The EA has further confirmed that, if and to the extent the TTT Project performs as modelled and with output from compliant operations showing that up to 5 spills from CSOs per year take place with the tunnel option, in a typical year, the TTT Project will be deemed to satisfy the requirements of the UWWTD.

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 to intercept the most polluting CSOs as identified by the Environment Agency.

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 His 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).

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 2 "*Risk Factors*" under "*Operational and infrastructure asset risks - 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 undertaken several 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 were funded by TWUL under its 2014 Final Determination. The Interface Works predominantly interface with TWUL’s existing assets and are delivered via TWUL’s 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.

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 while 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 water only companies ("WOCs")); and
- (c) TWUL is liable to pay a proportion of the revenue collected from customers or the WOCs to BTL monthly. 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 may 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 an interface agreement during the works phase of the TTT project (the "**Interface Agreement**") and an operation and maintenance agreement from the System Acceptance Date (the "**O&M Agreement**"). 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 (the "**Alliance Agreement**"), 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 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. 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 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: (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 or “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 penalties which arise are calculated annually and are 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 million, 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. 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 Price Review 14 ("**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 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.

Ofwat Consultation on Proposed Condition T Licence Modification

In October 2019, Ofwat informally consulted with TWUL in relation to a proposed amendment to TWUL's Licence Condition T relating to the TTT Project. Under that proposed amendment, for disposals of protected land originally acquired by TWUL for the purposes of the TTT project ("**Protected Land**"), Ofwat proposed that TWUL should share profits and losses arising on such disposals in the ratio of 80 per cent. (customers) and 20 per cent. (TWUL) as opposed to the current position where customers bear 100 per cent. of the profit or loss concerned. TWUL indicated to Ofwat in December 2019 that it was not agreeable to those changes. A reputational incentive has now been included in TWUL's Final Determination for PR19, therefore this proposed licence change has not been revisited by Ofwat and is unlikely to be made.

Land Strategy

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 in September 2024 which will now be prior to 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 the 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 and PR19 applications. 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. If 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 (which triggers a right to terminate the project licence, and consequently the purpose of the special administration order should no longer be relevant); 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 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 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:

- (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 exceeding 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, after 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 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, 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:

- (a) has consulted Ofwat and TWUL and such other person he considers appropriate;
- (b) has taken into account the existence of a project licence in respect of the TTT Project; and
- (c) 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) have regard to the risk being covered; and (ii) address the interests of TWUL and each finance party.

Pensions

TWUL operates three pension schemes, one of which is a defined contribution scheme (The Thames Water Section of the Aon Master Trust ("TWDC")) and the other two are defined benefit schemes (the Thames Water Pension Scheme ("TWPS") and the Thames Water Mirror Image Pension Scheme ("TWMIPS")). Both defined benefit pension schemes are multi-employer schemes where TWUL and Thames Water Property Services Limited are the participating employers.

TWDC was established in October 2020 and is open to all new employees of TWUL. The assets of the TWDC are held separately from those of TWUL and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

TWPS was closed to new entrants in March 2011; TWMIPS was closed to new entrants following water privatisation in 1989.

TWPS ceased to provide pension benefits on a final salary basis in 2011, as did the TWMIPS in 2014. With effect from those respective dates, future benefits were provided on a Career Average Revalued Earnings (CARE) basis. TWPS was closed to future accrual as at 31 March 2021 following the completion of a formal consultation process which commenced in October 2017, between TWUL, Trade Union and Pension scheme representatives. TWMIPS remains open to accrual and if Thames Water Property Services Limited ceases to have any active members, a funding plan may be required in relation to any funding deficit.

The assets of all these pension schemes are held separately from the rest of the company in accordance with United Kingdom pensions legislation and are independently administered by the respective pension trustees. Under International Accounting Standard 19 (Employment Benefits) (IAS 19) the net deficit calculated at 31 March 2023 for the company's defined benefit pension schemes totalled £176.0 million. This consists of a deficit in TWPS of £182.0 million and a surplus in TWMIPS of £6.0 million.

There is a recovery plan in place, as agreed between the TWUL Directors and the pension trustees, to restore TWPS to a fully funded position. Pursuant to the March 2019 actuarial valuation, as agreed in December 2019 TWUL has committed to making additional annual contributions to the scheme. The additional amounts, calculated by a qualified and independent Scheme Actuary working on behalf of the pension 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 2023 and the section of this Chapter entitled "*Pension Scheme*".

Litigation

Save as disclosed below, 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 the TWU Financing Group.

TWUL is currently defending five sets of court proceedings (served in 2020 and 2021) commenced by different groups of Property Search Companies (“PSCs”) seeking refunds of fees paid for property search reports, known as CON29DW reports, and their commercial property equivalent, from December 2013 to date. The PSCs allege that they have been overcharged for drainage and water searches and that information should have been made available to them pursuant to the Environmental Information Regulations 2004, free of charge or for a small fee. The position is replicated across other Water & Sewerage Companies in England and the claims are a collective action brought by those different groups of PSCs against the industry. TWUL is defending these claims, as are the other water and sewerage companies in England, who are aligned with TWUL’s position. The trial date has been set to commence in for the week of 6 November 2023.

On 8 July 2019, Ofwat announced that it was investigating whether TWUL may have contravened the prohibition in Chapter II of the Competition Act 1998 by abusing a dominant position. The allegations relate to:

- the approach that TWUL has taken when installing digital smart meters and the impact that this has had on providers of data logging services and their customers;
- the accuracy of the data about customers that TWUL made available to retailers at the time of the opening of the business retail market; and
- the fairness of certain contractual credit terms that TWUL applies to retailers.

TWUL has responded to several Ofwat information requests and questions. In late 2020, Ofwat’s investigation was split into two – one covering competition issues and the other covering regulatory/licence issues. As regards the competition elements of the investigation, Ofwat consulted until 22 June 2021 on certain proposed binding commitments from TWUL. The regulatory and competition aspects of the investigation were closed in December 2021 and March 2022 respectively, with binding undertakings and commitments provided by TWUL. On the competition investigation, no findings were made against TWUL and no penalty was imposed. On the regulatory investigation, TWUL was found to have contravened Conditions F, P and R2 of its licence and in its penalty notice, Ofwat imposed a penalty of £1 in view of the undertakings offered by TWUL and compensation amounting to £11.2m which TWUL had agreed to pay. Both elements of the investigation have now closed. In January 2023, TWUL submitted its final report to Ofwat which confirmed that, in the opinion of the TWUL Board, all agreed undertakings and commitments have been addressed. TWUL is awaiting Ofwat’s confirmation of closure.

TWUL were subject to a fine in relation to its leakage performance commitment in 2016/17. For further information, please refer to the section entitled “*TWUL - Water distribution*” above.

TWUL have also been subject to fines in relation to pollution incidents and are subject to certain ongoing litigation. For further details, please refer to the section entitled “*Wastewater treatment*” in above.

Potential Leigh Day Class Action

In February 2023, TWUL received a letter before action from Leigh Day who are instructed by a client to bring collective proceedings against TWUL in the Competition Appeal Tribunal under s.47B Competition Act 1998. Leigh Day’s client intends to act as class representative for a proposed class of consumers of TWUL for the period 1 April 2020 to present. Leigh Day alleges that TWUL has abused its dominant position by (a) misleading regulators (Ofwat and the EA) regarding the number of pollution incidents that occurred during PR14 and PR19 and (b) charging unfair prices over and above what TWUL would have been permitted to charge had TWUL

complied with regulatory obligations and accurately reported pollution incidents. BCLP has sent a substantive response on behalf of TWUL to the letter before action arguing that the claim is unsound and that it is also premature in view of the EA and Ofwat investigations. Leigh Day has also sent a letter before action to KWHL and said that it too will be a defendant. BCLP has also responded to this confirming that KWHL adopts the same position as TWUL. It is not yet clear when Leigh Day will formally issue the claim against TWUL and KWHL.

Please also refer to sections on “*Environmental pollution offences*” and “*Health & Safety offences*” in Chapter 2 “*Risk Factors*” above.

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 that TWUL maintains sufficient financial and management resources to enable it to carry out its functions in a sustainable manner and (i) that TWUL has the means to conduct its Appointed Business separately from the Thames Water Group; (ii) that all dealings between the Thames Water Group and the TWU Financing Group are on an arm’s length basis; and (iii) that TWUL meets the Board Leadership, Transparency and Governance (BLTG) objectives set out by Ofwat.

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.

- Following several Ofwat consultations since 2018 aimed at strengthening the regulatory ring-fence, in July 2020 and again in May 2023, Ofwat updated the ring-fencing provisions in TWUL’s Licence, which are now principally found in Condition P. 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 (this is supplemented by Regulatory Accounting Guideline 5).
- TWUL must ensure, as 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 are contained in TWUL’s Licence (Licence Condition P).

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 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 a guarantee in relation to any liability of an associated company; (ii) make a loan to an associated company; or (iii) enter into an agreement or other legal instrument incorporating a cross default obligation (whether with an associated company or otherwise). There are limited exceptions relating to existing cross-default obligations.

(d) Restrictions on Dividend Payments

TWUL is required to declare or 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 (taking account of current and future investment needs and financial resilience over the longer term) ; (ii) that dividends declared or paid take account of service delivery for customers and the environment over time, including performance levels, and other obligation; and (iii) that dividends declared or paid under a system of incentive regulation dividends would be expected to reward efficiency and the management of economic risks to the appointed business of TWUL.

For the purpose of this licence condition, dividends refers to any distributions declared or paid in respect of any ordinary shares or preference shares.

(e) Adequate Resources, Systems of Planning and Internal Controls

TWUL is required, to act in a manner “best calculated” to ensure that it has adequate financial resources and facilities, management resources and systems of planning and internal control to carry out its regulated activities. Compliance with this requirement must not be dependent upon 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. 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 (see paragraph (j) below).

(f) Conducting the Appointed Business of TWUL

Licence Condition P requires TWUL to operate the Appointed Business as though it was substantially TWUL’s sole business and TWUL was a separate public limited company. In addition, TWUL must meet the objectives on board leadership, transparency and governance set out in Licence Condition P.

(g) Publishing of financial information

Although no longer expressly set out in its Licence, 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

If TWUL’s Ultimate Controller is not listed on the London Stock Exchange (or another exchange that Ofwat agrees is of a similar standing), TWUL is required to use all reasonable endeavours to maintain the listing of a financial instrument whose market price reflected its financial position on the London Stock Exchange (or, with Ofwat’s prior agreement, another exchange of similar standing).

(i) Maintenance of an investment grade credit rating

TWUL is required to ensure that it (or any associated company which issues corporate debt on its behalf) maintains at all times two investment grade issuer credit ratings from two different credit rating agencies, other than where Ofwat provides its written agreement for TWUL to maintain only one investment grade

issuer credit rating. The ratings reflect 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 ratings act as an early signal that the ability of the Appointed Business to raise future finance is at risk.

Following a modification to Licences broadening the definition of an ‘issuer credit rating’ which came into effect on 13 July 2020, Ofwat issued a letter on 12 August 2020 to TWUL confirming which ratings Ofwat consider fall within the revised definition for TWUL. These are: Moody’s Corporate Family Rating and Standard & Poor’s Class A issue rating.

Ofwat also confirmed within the letter that, “for the avoidance of doubt, Class B / subordinated debt ratings are not used as regulatory markers for cash lock-up or to assess compliance with the appointee’s obligation that it must ensure it maintains an appropriate investment grade credit rating at all times.”

TWUL must inform Ofwat as soon as reasonably practicable of any change to any of its issuer credit ratings including reasons for the change in rating. A notification must be provided within a maximum of five working days of (i) a change in issuer credit rating grade or outlook; (ii) a new issuer credit rating being obtained; or (iii) the withdrawal of an issuer credit rating.

(j) Ring-fencing certificate

No later than the date on which TWUL is required to deliver to Ofwat a copy of each set of regulatory accounting statements prepared under Licence Condition F, it must submit a Ring-Fencing Certificate (a “**RFC**”) to Ofwat.

An RFC confirms that, in the opinion of the Board, TWUL will have available to it sufficient: (i) financial resources and facilities; (ii) management resources and systems of planning and internal control; and (iii) rights and resources other than financial resources (for the purposes of Special Administration). The Board is also required to certify that all contracts entered into between TWUL, and its associated companies include the required provisions in respect of the standard of service and deliverables to be supplied to TWUL to carry out its regulated activities.

The basis of these views 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 required to file a report to this effect to Ofwat in accordance with the provisions of its Licence.

Where the Board of TWUL becomes aware of any activity of TWUL or any Thames Water Group company, which does not form part of its regulated activities, and which may be material in relation to TWUL’s ability to finance its regulated activities, it must inform Ofwat and, within fourteen days of becoming aware of such activity, submit a new RFC to Ofwat.

Each RFC must be:

- (i) signed by all the directors of TWUL on the date of submission, or approved by the Board; and
- (ii) accompanied by a report prepared by TWUL’s Auditors and addressed to Ofwat, stating whether they are aware of any inconsistencies between that RFC and the financial statements, or any information which the Auditors obtained in the course of their work.

(k) Cash lock-up

The cash lock-up provision prohibits, subject to certain limited exceptions, without Ofwat’s prior consent, the transfer, leasing, licensing, or lending of any sum, asset, right or benefit to any associated company when TWUL (or any associated company which issues corporate debt on its behalf): (i) no

longer holds an investment grade issuer credit rating; (ii) holds more than one issuer credit rating and one or more such ratings is not investment grade; or (iii) holds an issuer credit 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. On 20 March 2023, the cash lock-up provisions in Regulated Companies' licences were modified by Ofwat by raising the cash lock-up trigger to BBB/Baa2 with negative outlook, subject to a three-month grace period, from BBB-/Baa3 with negative outlook. This modification will be effective from 1 April 2025. For more information, please see “(Impact of Ofwat adopting tighter regulatory measures to achieve financial resilience) and (Risk Factors - Modification of a licence) above in Chapter 2 and (Regulation of the Water and Wastewater Industry in England and Wales) below in Chapter 6.

In March 2023 Ofwat also confirmed that, with effect from 1 April 2025, the cash lock up trigger within the licence condition will be raised to BBB/Baa2 with negative outlook. This compares to that currently in operation of BBB-/Baa3 with negative outlook as set out above.

(l) Ultimate Controller undertakings

Licence Condition P requires TWUL to secure legally enforceable undertakings from its Ultimate Controller and, when such Ultimate Controller is not the UK holding company, from its UK holding company, that they (and each of their subsidiaries (other than TWUL and its subsidiaries)), will:

- (i) give TWUL all such information as may be necessary to enable TWUL to comply with its obligations under the WIA or the Licence; and
- (ii) refrain from any action which might cause TWUL to breach any of its obligations under the WIA or the Licence;

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 into any new contract or arrangement with its Ultimate Controller or the subsidiaries of such a person (other than subsidiaries of TWUL) at a time when no such undertaking exists or there is an unremedied breach of such undertaking.

Furthermore, TWUL must also inform Ofwat as soon as reasonably practicable if it becomes aware that: (i) arrangements are in progress or contemplation which, if carried into effect, may lead to a change in Ultimate Controller(s); (ii) arrangements have been put into effect which might be considered to have led to a change in Ultimate Controller(s); or (iii) any person intends to submit a merger control filing to the CMA or the European Commission with respect to an actual or potential change of control of TWUL.

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

It has been agreed with Ofwat that Kemble Water Holdings Limited should provide the UK Holding Company undertaking.

Financial resilience in the water sector

The PR24 Final Methodology published in December 2022 indicated that Ofwat will require Board assurances that companies can maintain financial resilience over AMP8 and beyond in executing their business plan. Ofwat will reserve the right to apply an incentive-based mechanism within AMP8 if they are not satisfied with the

progress made in strengthening the regulatory protections or where companies with risky structures are not delivering tangible improvements in financial resilience. The gearing reduction of the notional company (from 60 per cent. to 55 per cent.) signalled a move towards financial resilience although the target rating remained unchanged. It is also expected that stress testing scenarios will be prescribed and will require a level of headroom. This includes a wide range of inflation scenarios both above and below HM Treasury forecasts; Totex underperformance (10%) over five years; ODI under performance payments; inflation below the assumption for the base case in the business plan (2% below); deflation of -1% for years, followed by a return to the long term inflation target; high inflation (a 10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge); increase in the level of bad debt (20%) over current bad debt levels applied in years 2 and 3; debt refinanced as it matures; and financial penalties.

On 29 June 2023, in response to commentary about financial resilience in the water sector (and following particular focus on Thames Water), Ofwat published a statement emphasising that the water sector “is continuing to attract international capital” and that Thames Water “has strong liquidity”. Ofwat noted that it would continue to closely scrutinise the financial resilience of all companies in the sector.

On 24 July 2023, Ofwat’s Chief Executive David Black published an article titled “*Thames, debt and water sector finance*”. In it, he noted that following privatisation, it was always intended that investment in the sector would at least partially be funded by debt. However, where companies have borrowed too much, the responsibility for correcting this lies with the company and its shareholders. Black highlighted the need for continued major investment in the sector in a manner which does not compromise its financial resilience.

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.

There are two participating employers for TWPS and TWMIPS – TWUL and Thames Water Property Services Limited.

Intellectual property rights

TWUL holds licences in respect of Intellectual Property Rights that are specific to the operation of the Appointed Business as well as its Permitted Non-Appointed Business. TWUL has trademarked in the UK the words “THAMES WATER” and “Thames Water” set within its two roundels.

Save for software licences and any licences for the use of technologies, including within its processes or plants, the operation of the Appointed Business is not materially 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 2022/23 were PwC, which is a member firm of the Institute of Chartered Accountants in England and Wales.

Board composition and corporate governance

TWUL operates under the overall direction of the Board which is responsible for policy and strategic matters. In connection with the acquisition of Thames Water Holdings plc (now liquidated) 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.

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 the Non-Executive Chairman, one Executive Director, two Thames Shareholder appointed Non-Executive Directors and five Independent Non-Executive Directors.

Alastair Cochran joined as TWUL's new Chief Financial Officer on 6 September 2021 and was appointed as an Executive Director of TWUL on the same day. He was appointed interim Co-CEO on 27 June 2023.

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 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

To ensure that TWUL's remuneration policy and practice is in line with best practice, the remuneration committee is supported by an independent external remuneration advisor. The role of the remuneration committee is to ensure that the Executive Directors and senior management are appropriately rewarded for their contribution in TWUL's performance, to attract, retain and motivate talented senior leaders to deliver great outcomes for TWUL's customers, shareholders and other stakeholders. Fixed pay is benchmarked to a basket of comparable businesses and pension allowances are being aligned to those paid to the rest of the workforce.

The purpose of variable pay is to motivate and incentivise the Executive Directors and other senior colleagues to deliver ongoing performance improvement in-line with the expectations of TWUL's customers, stakeholders and shareholders. To do this, the variable pay programme must be perceived by all parties, including staff, to be fair and realistic.

Measure selection must be relevant, and the targets set achievable but appropriately stretching, to motivate ongoing, sustained performance improvement in a manner that colleagues can understand, relate to and clearly see how their actions can influence outcomes.

The Annual Management Bonus and Long Term Incentive Plan frameworks were designed prior to the appointment of the current executive team and prior to the creation of the Turnaround Plan, and the Remuneration Committee concluded from its review that an alternative framework would better suit the requirements of Thames Water going forward.

A new variable remuneration framework, the Performance-Related Pay Plan (PRPP), has been designed to support these principles, as well as the broader context of: (i) ongoing conversations with Ofwat about its expectations for executive pay (including its most recent consultation paper); (ii) increasing public scrutiny; and (iii) the need to retain and motivate high calibre individuals to deliver the company's stretching turnaround plan to enable sustained performance improvement.

The Annual Management Bonus and Long Term Incentive Plan have been replaced with a single PRPP framework, which combines an opportunity linked to annual performance with a deferred element that remains subject to continued employment and a modifier linked to longer-term performance. All staff in bands C-E, plus the Executive Directors, are eligible to participate in the PRPP on broadly consistent terms.

The main aims of the Performance-Related Pay Plan are to:

- align with TWUL's key remuneration principles (as set out in the Directors' Remuneration Policy);
- ensure a clear and demonstrable link between pay and performance;
- support retention and motivation;
- balance customer, environment and financial resilience KPIs (and against which it is possible to set meaningful and robust targets);
- be neutral to AMP boundaries (a particular issue with the previous LTIP); and
- align with shareholder value creation over the longer-term.

The measures in the PRPP recognise the priorities of TWUL's customers, stakeholders, shareholders and colleagues and are categorised as:

- Customer;
- Environment; and
- Financial Resilience.

In setting the measures, the scorecard has been rebalanced to give greater weight to Customer and Environment. Measures relating to Financial Resilience have been reduced.

Targets for each measure are set to ensure that PRPP appropriately rewards:

- Delivery against the company's Integrated Business Plan (IBP);
- Delivery against the company's Turnaround Plan;
- Year-on-year performance improvement; and
- Progress towards Ofwat's performance expectations.

The Remuneration Committee retains absolute discretion to adjust any potential award outcome through application of discretion based on the company's performance 'in the round'.

Any payment is subject to clawback for two years after award.

In June 2023, Ofwat published guidance on performance related executive pay which confirms its intent to introduce an end-of-period reconciliation mechanism to adjust revenue allowances where a company fails to match its expectations. The factors Ofwat proposes to consider when deciding whether a company's approach to executive pay meets its expectations include (i) whether the short and long term elements of performance related pay demonstrate a substantial link to stretching delivery for customers and the environment; (ii) whether award decisions are based on stretching targets; (iii) whether award decisions take into account overall performance delivered for customers, communities and the environment; and (iv) whether discretion has been exercised to use mechanisms such as deferral or clawback.

Directors of TWUL

Chairman

Sir Adrian Montague was appointed as Chairman of TWUL in June 2023. Previous roles include Chairman of The City UK Advisory Council, Aviva Group plc, 3i Group, Anglian Water Group, Michael Page International plc, London First, British Energy Group plc, Friends Provident plc, Cross London Rail Links Ltd and Hurricane Exploration plc. Adrian was a former Deputy Chairman of Network Rail Ltd, Partnerships UK plc and UK Green Investment Bank plc.

From 1999-2001 he held senior positions connected with the implementation of Government's policies to expand the use of private finance in the provision of public infrastructure, first as the Chief Executive of the Treasury Taskforce, then as Deputy Chairman of Partnerships UK plc. Before 1999, he was the Global Head of Project Finance at Dresdner Kleinwort Benson, having joined the bank in 1993, after 20 years as a lawyer with Linklaters & Paines.

Sir Adrian was awarded a CBE in 2001 and is a law graduate of Trinity Hall Cambridge.

Executive Directors

Interim Co Chief Executive Officer and Chief Financial Officer

Alastair Cochran joined TWUL as CFO on 6 September 2021. He was appointed interim Co-CEO on 27 June 2023 and is also part of the Board and Executive team. Alastair was previously Chief Financial Officer of Petrofac, where he developed and led the sustainability, digital and Finance transformation initiatives, which focused on reinforcing the Group's long-term cost competitiveness and delivering value for stakeholders through effective business partnerships. Prior to that, Alastair was at BG Group plc, where he was responsible for M&A, Treasury, Corporate Finance, Global Strategy and Business Development.

A member of the Institute of Chartered Accountants in England and Wales, he started his career with KPMG before enjoying a successful career in investment banking with Barclays de Zoete Wedd, Credit Suisse First Boston and Morgan Stanley.

Cathryn Ross joined TWUL as Strategy and External Affairs Director in June 2021 and was appointed interim co-Chief Executive Officer on 27 June 2023, although Kathryn is not a member of the Board.

Cathryn was most recently Group Regulatory Affairs Director at BT Group, responsible for developing and implementing regulatory strategy. Previously, she was Chief Executive of Ofwat, where she successfully oversaw the delivery of a new strategy, focused on a vision for the sector of trust and confidence in water and wastewater services. Prior to that, Kathryn was Executive Director of Markets and Economics at the Office of Rail Regulation (now the Office of Rail and Road), and Executive Director of Markets and Economics at Ofwat. She also served with the Competition Commission (now the CMA) and has worked in economic consultancy. In January 2020, Kathryn was appointed the inaugural Chair of the Regulatory Horizons Council, an

independent committee established by BEIS, and she is also a Non-Executive Director of the Institute of Customer Service.

Appointed Non-Executive Directors

Michael McNicholas was appointed as a Non-Executive Director of TWUL in July 2019. Michael is currently Managing Director, Asset Management at OMERS Infrastructure, with a focus on Europe. His asset management experience currently focuses on regulated utilities and energy transition with Board roles including Ellievio, Net4Gas and Groendus.

Michael previously held the position of Group CEO of Ervia, with responsibility for Ireland's National Gas Networks and its national Water Utility. Prior to that he was Group CEO of NTR Plc., an infrastructure investment company with a focus on renewable and sustainable infrastructure. He was also an Executive Director in ESB, Ireland's national electricity utility, where he held leadership roles including responsibility for Generation & Wholesale Markets, Customer Supply and latterly as Managing Director of ESB International.

Guy Lambert

Guy Lambert was appointed as a Non-Executive Director of TWUL in September 2022. Guy is currently the Sector Head of Utilities for the Infrastructure Department of the Abu Dhabi Investment Authority (ADIA) where he is responsible, in collaboration with senior management, for developing and implementing the investment strategy for the utility infrastructure business globally. This includes managing ADIA's existing portfolio of infrastructure investments, as well as working with team members to originate and execute new transactions.

Guy previously held senior corporate finance and advisory roles at Macquarie and Dresdner Kleinwort Wasserstein and prior to this he traded equity derivatives at All Options International. Guy has a Master of Science degree in economics from Erasmus University Rotterdam in the Netherlands.

John Holland-Kaye

John Holland-Kaye was appointed as a Non-Executive Director of TWUL in April 2023. John has been CEO of Heathrow Airport since July 2014, leading its transformation in service. Before that, John was Development Director, responsible for delivering its £1 billion annual capital programme. John was previously Divisional CEO with Taylor Wimpey PLC and Managing Director, National Sales for Bass Brewers. He also worked as a strategy consultant with LEK Consulting.

John is currently Chair of the Aviation Task force of HM King Charles' Sustainable Markets Initiative, a member of the DEFRA Council for Sustainable Business, Chair of the West London Corporate Action Group and a Commissioner on the Energy Transitions Commission. John was formerly a Non-Executive Director of Thames Tideway Tunnel and Chair of Business in the Community's Employment and Skills Taskforce.

Independent Non-Executive Directors

Nick Land was appointed as an Independent Non-Executive Director of TWUL in February 2017 and was subsequently appointed Senior Independent Non-Executive Director. Nick brings a wealth of multi-sector finance and governance experience following 11 years as Chair and CEO of EY as part of his 36-year career at one of the world's largest accounting firms.

He currently chairs The Instant Group and is a Non-Executive Director of IHS Towers. He also Chairs the Vodafone Group Foundation and the Private Equity Reporting Group of the British Venture Capital Association. Nick is a former Non-Executive Director of the Financial Reporting Council and has a long history of Non-Executive Director roles at global companies such as Vodafone, Alliance Boots and Shell.

Ian Pearson was appointed as an Independent Non-Executive Director of TWUL in September 2014. Ian brings extensive business and public sector insight to the Board. During a distinguished Ministerial career from 2001-2010 he held a number of positions, including Minister for Trade & Foreign Affairs, Minister of State for Climate Change and the Environment, Minister for Science, and Economic Secretary to the Treasury.

He is currently Chairman of Eqtec plc, a clean gas technology solutions company, and Quantum Exponential plc, and has previously been a member of the UK Advisory Board of the accountants PwC.

Jill Shedden MBE was appointed as an Independent Non-Executive Director of TWUL in October 2018. Jill is currently Group Chief People Officer of Centrica Plc after holding senior HR positions across the Centrica group. She has championed diversity and inclusion throughout her career and has focused on building a high performing environment and a great place to work. In her role at Centrica, she has led major culture change, cost reduction and reorganisation programmes, as well as achieving “Best Companies” and “Great Places to Work” awards.

Jill was awarded an MBE for her work with the Women’s Business Council, a group set up to advise ministers how to maximise women’s contribution to the future economic growth of the country.

Catherine Lynn was appointed as an Independent Non-Executive Director of TWUL in November 2018. Catherine brings a wealth of commercial, operational, strategic and senior management experience having played a leadership role in Europe’s low-cost aviation sector for 20 years, with a focus on delivering outstanding customer service. She was formerly the Chief Customer Officer for Parkdean Resorts, the UK’s largest holiday park company, and the Group Strategy and Commercial Director of easyJet, where she was directly responsible for a number of major initiatives underpinning easyJet’s successful exponential growth.

Catherine also has 18 years’ experience as a Non-Executive Director.

Hannah Nixon was appointed as an Independent Non-Executive Director of TWUL in January 2021. Hannah has widespread experience in economics and regulation across a range of industries. She brings significant experience of developing and delivering key regulatory work, advising regulators and companies on regulation, market structuring and competition issues. She was the first CEO of the Payment Systems Regulator, the economic regulator of the UK’s £80 trillion payments industry, responsible for driving competition and innovation in the interests of consumers.

Hannah was also a Senior Partner and Head of Profession for Economics at Ofgem, where she had responsibility for the networks division. Hannah is currently Chair of the Single Source Regulations Office and a non-executive director of National Grid Electricity System Operator, the Financial Reporting Council and WorldPay UK (a global payment processing company). She was formerly a NED of the Jersey and Guernsey Competition and Regulatory Authorities.

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 Rachel Hambrook.

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*”, subparagraph “*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. TWUF has no other equity or debt capital, save for as disclosed in the section “*The Activities of the Issuer*” 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. The website of TWUF is www.thameswater.co.uk but information on the website does not form part of this Prospectus unless it has been explicitly incorporated by reference into this Prospectus.

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 2022/23 were PwC, which is a member firm of the Institute of Chartered Accountants in England and Wales.

Directors of the Issuer

The directors of TWUF are Ian Keith Dearnley, David Stephen Gregg and Jonathan Read.

Ian Keith Dearnley has held a number of senior roles at Thames Water since April 2022 and previously at Severn Trent Plc. He has a track record in transformation, turnaround, innovative operational Outcome Delivery Incentive performance improvement, strategy and planning and corporate development/ M&A. Ian is a Director of a number of Kemble group companies.

David Stephen Gregg is the Director of Corporate Finance and joined Thames Water in February 2023, having previously been Head of Corporate Finance and Acting CFO at Yorkshire Water.

Jonathan Read is has held senior strategy, corporate development and regulation roles at Royal Mail where he led the company’s price review and interim determination, and subsequently was part of the core IPO team. Prior to joining Thames Water as Director of Regulatory Policy & Investigations in January 2022, he was an advisor to the European Commission responsible for economic impact analysis of market opening, a Director of Strategy and Policy at Ofwat and also worked as management consultant focussing on utilities.

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 Benjamin Swiergon.

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 other Authorised Credit Facilities 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 subsidiary of the Parent. Its authorised share capital is £500,000,002 divided into 500,000,002 ordinary shares of £1 each. 500,000,002 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 2022/23 were PwC, which is a member firm of the Institute of Chartered Accountants in England and Wales.

Directors of TWH

The directors of TWH are Sir Adrian Montague (Chairman), Jae Hun Kim, Stephen Deeley, Gavin Merchant, Ying Deng, Jerry Divoky, Alastair Hall, Henrik Onarheim, Susannah Lowndes, Perry Noble, Abdul Moiz Qureshi, Tao Mi, Giles Tucker, Minzhen Wang and Desmond Wilkins.

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

Company Secretary of TWH

The Company Secretary of TWH is Benjamin Swiergon.

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 Agreements. The principal amount advanced under the TWUL/TWH Loan Agreements as at 31 March 2023 was £1,249.1 million, with £735.7 million repayable by TWH in 2037, and the balance repayable on demand. 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 October 2023, Ofwat recognised 11, typically large, regional companies providing water and sewerage services, five regional companies providing water services only, nine local companies providing water or sewerage or both, 39 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 mainly contained 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, the Environment Act 2021 and to a lesser extent by various other statutory provisions. References in this section to statutes are to the WIA, as amended, unless otherwise stated. The Water Act 2014 introduced a new, more liberalised market structure, vested more powers and responsibilities in Ofwat and made several changes to water resources and environmental regulation. Under the Water Act 2014, the non-household retail market opened to competition in England, 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 and sewerage licensees”, comprise not only the original 12 licensees that served large-use customers before April 2017, but also new entrants. Certain eligible non-household customers can also seek to self-supply their premises.

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 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 of financial and non-financial information (the “annual performance report”) 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.

On 6 July 2016, the EU Parliament adopted the Directive on security of network and information systems (the “**NIS Directive**”). The NIS Directive provides legal measures to protect essential services and infrastructure by improving the security of Network and Information systems. The Government implemented the NIS Directive through the NIS Regulations 2018 (the “**NIS Regulations**”), which came into force on 19 May 2018. In January 2022, the Government launched a public consultation on proposals for legislation to improve the UK’s cyber resilience. The proposals included policy measures which aim to address the evolving cyber security threats the UK faces via amendments to the NIS Regulations. Following the consultation, the Government confirmed in November 2022 that it is moving forward with plans to update the NIS Regulations as they apply to the UK. The DWI is the competent authority for the purposes of the NIS Regulations. Drinking water supply and distribution has been designated as an essential service for the purposes of the NIS Regulations and Regulated Companies, who are suppliers of potable water to 200,000 or more people, are automatically designated as an “Operator of Essential Services” and are required to comply with its requirements. Operators of essential services are required to take appropriate measures to manage risks to their network and information systems, to prevent and/or minimise the impact of incidents to those systems, and to notify the DWI of any incident that has affected the network and information systems which has had a significant impact on the continuity of the essential service. This will include occurrences where the operator of essential services has identified any operator error or interference with power, electronic systems, operational technology or information technology which has impacted on the supply, quality or sufficiency of water.

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 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 (together, the “**Primary Duties**”).

Subject to the Primary Duties, each of the Secretary of State and Ofwat shall also exercise and perform its powers and duties under the WIA in the manner it considers best calculated to, *inter alia*:

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

- (b) secure that no undue preference is shown, and that there is no undue discrimination in the fixing by Regulated Companies of water and drainage charges;
- (c) secure that no undue preference is shown, and that there is no undue discrimination in the provision of services by Regulated Companies or by water supply licensees or sewerage licensees;
- (d) secure that consumers are protected as respects benefits that could be secured for them by the application in a particular manner of any of the proceeds of any disposal (whenever made) of Regulated Companies' protected land or of an interest or right in or over any of that land;
- (e) ensure that consumers are also protected as respects any activities of Regulated Companies which are not attributable to the exercise of functions of a relevant undertaker; and
- (f) to contribute to the achievement of sustainable development (together, the "**Secondary Duties**").

The Secretary of State and Ofwat shall also have regard to the principles of best regulatory practice (including the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed).

Licences

General

Under the WIA, each Regulated Company is appointed as a water and/or sewerage undertaker pursuant to an instrument of appointment. The instrument of appointment is commonly referred to as a licence (and is referred to as such herein). Each Regulated Company 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 several 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; core customer information, 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; payments to customers for supply interruptions because of drought; obligations in relation to the Main Market Arrangements Code; and the introduction of water under the supply licensing regime. 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 section titled “*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.

A NAV can be granted to a company seeking to provide water and/or water recycling services on an unserved site, or to premises using more than 50 megalitres of water (250 megalitres up until 2005) within an existing Regulated Company’s area, or where the incumbent Regulated Company consents to the variation. Inset appointments may be granted to any existing or new Regulated Company, but not a licensed water supplier.

Modification of a licence

Conditions of a licence may be modified in accordance with the procedures laid down in Section 12A of the WIA, as amended by the Environment Act 2021. Subject to a power of veto exercisable in certain circumstances within a certain timeframe by the Secretary of State, Ofwat may modify the conditions in a licence without needing the consent of the Regulated Company concerned. Before making the modifications, the WIA requires Ofwat to publish a notice containing the proposed modifications as part of a consultation process. This notice must be published, and sent to the relevant Regulated Companies, the Secretary of State, the Consumer Council for Water and any person whose function is to represent the Regulated Companies and their interests who are likely to be materially affected by the proposed modifications (a “**Regulated Company Representee**”). This consultation gives the Regulated Companies and the identified third parties not less than forty-two days to make representations in relation to the proposed modifications. Ofwat must consider these representations.

After this period Ofwat must publish the decision and the modifications, state their effect, state the reason for any differences from the modifications set out under the notice and state how Ofwat has taken into account any representation made. The proposed modifications will take effect not less than fifty-six days after the publication of Ofwat’s decision to modify, unless Ofwat considers it necessary or expedient for the modification to take place earlier. If Ofwat requires the modification to take place before the fifty-six day time period, Ofwat will need to indicate this in their initial notice, state their justification behind this accelerated time period, and state how it will not have a material adverse effect on any Regulated Company.

Where Ofwat proceeds with a modification under Section 12A of the WIA, an appeal can be made to the CMA. This appeal can be made by a Regulated Company whose Licence is being modified under Section 12A, or by another Regulated Company whose interests are materially affected by the modification. Additionally, an appeal can be brought by a Regulated Company Representee, who is materially affected by the modification, or the Consumer Council for Water.

The CMA may refuse the appeal where the appeal is being brought by a Regulated Company where that Licence is not being amended, and the CMA considers that Regulated Company’s interests are not materially affected by the modification. A similar refusal mechanism applies to a Regulated Company Representee. In addition, the CMA may refuse an appeal where it is brought for reasons that are trivial or vexatious, or has no reasonable prospect of success.

In determining the appeal, the CMA must have regard to the duties of Ofwat and the Secretary of State, as well as Ofwat's strategic priorities and objectives. These include, furthering the consumer objective, to ensure that the functions of Regulated Companies are properly carried out, and to ensure that Regulated Companies are able to finance the carrying out of those functions.

The CMA may allow the appeal only to the extent that it is satisfied that the decision was wrong on one or more of the following grounds:

- that Ofwat failed properly to have regard to its duties, strategic priorities and objectives;
- that Ofwat failed properly to give appropriate weight to its duties or its strategic priorities and objectives;
- that the decision was based, wholly or partly, on an error of fact;
- that the modifications fail to achieve, in whole or in part, the effect stated by Ofwat;
- that Ofwat did not follow the procedure required by Sections 12A to 12C of the WIA; and
- that the decision was otherwise wrong in law.

Should the CMA allow the appeal, it must quash the decision, and/or remit the matter back to Ofwat for reconsideration and determination in accordance with directions given by the CMA.

It is possible for primary legislation to confer on Ofwat the power to modify the licences of a 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.

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. There is scope for this arrangement to change with the proposed reforms in "*Reforming Competition and Consumer Policy*" (July 2021) and the government response to the consultation published in April 2022. In April 2023, the Government introduced the draft Digital Markets, Competition & Consumers (DMCC) Bill, which does not materially change the merger and market regime substantively but introduces additional powers for the CMA to bring enforcement action to protect consumers.

Recent modifications to and proposals to modify the Instrument of Appointment

In July 2023, Ofwat published a consolidated working version of TWUL's licence, reflecting licence modifications that have been made (and published) between January 2019 and May 2023.

Direct procurement for customers

Over the course of 2020, Ofwat launched consultations on proposed amendments to licence conditions, including in relation to Direct Procurement for Customers (DPC) that involves a water company competitively tendering for services for the delivery of discrete large infrastructure projects. The licence condition amendments in relation to the affected companies (five water companies (not including Thames Water) which were expected to procure DPC schemes within AMP 7) came into effect in February 2021. These amendments included the introduction of a new condition U to establish the framework for the DPC procurement process and regulation of such projects and the amendment of Condition B to allow for the recovery from customers of charges paid to the CAP and to introduce a bespoke interim determination mechanism for changes to prices controls in relation to DPC. In the PR24 Final Methodology, Regulated Companies will be required to use DPC

by default for any projects with an expected lifetime Totex of over £200 million. These amendments will be made to the licences of every water company which is expected to procure DPC scheme within AMP8.

Removal of Condition C

In January 2022, Ofwat launched a consultation on whether to modify condition C of each English water company's (including Thames Water) Instrument of Appointment. The licence condition C relates to setting infrastructure charges. All water companies supported the proposal to remove licence condition C, as well as to reduce the time between making the modification and the modification taking effect. Condition C was removed from licences as of 1 April 2022.

Changes to strengthen the ring-fencing licence conditions of the largest water companies

On 20 March 2023, Ofwat published its decision to modify the ring-fencing licence conditions in each water company's licence. The key modifications introduced by Ofwat are:

- raising the licence cash lock-up trigger to BBB/Baa2 with negative outlook (effective from 1 April 2025);
- modifying the dividend policy licence condition to require that dividend policies and dividends declared or paid will not impair the ability of TWUL to finance the Appointed Business, taking account of service delivery for customers and the environment over time, current and future investment needs and financial resilience over the long term (effective from 17 May 2023);
- modifying the credit ratings licence requirement such that companies are now required to maintain two investment grade issuer credit ratings with two different credit rating agencies, or to seek Ofwat's agreement to an alternative arrangement, if proportionate (effective from 17 May 2023); and
- to notify Ofwat of changes to issuer credit ratings (including changes in rating and/or outlook, new ratings assigned or planned rating) (effective from 17 May 2023).

Regulation fee cap (condition N) of water company licences

Ofwat replaced the historical formula to calculate their revenue which regulated companies pay them. There is now a new cap that aligns with the decisions made by the Treasury through Comprehensive Spending Review (CSR) processes about how much Ofwat can spend. There will be a cap for Annual General Fees and Special Fees by reference to the income limit that the Treasury sets for Ofwat for each financial year which is based on the CSR. It is possible that the Treasury might change the income limit set for a particular year, so the cap would be the income limit at the point in time when the amount of the Annual General Fee or any Special Fee is determined.

Customer-focused condition

In May 2023, Ofwat launched a consultation on its proposal to introduce a customer-focused condition in each water company's licence. This condition will provide a clear regulatory basis for the requirement for companies to treat customers fairly, including by providing support to customers in vulnerable circumstances. This consultation closed on 7 July and Ofwat has yet to publish its response. Ofwat is expected to carry out a statutory consultation under the WIA 1991 later in 2023 and implement its decision in late 2023 or early 2024. On 27 July, Ofwat began a consultation on its draft vulnerability guidance for water companies supporting customers who need extra help. The consultation closes on 18 October.

Proposed modifications to Condition B

In August 2023, Ofwat launched a consultation on its proposal to modify the definition of “Excluded Charges” in Condition B (Charges) in relevant water companies’ licences (including TWUL’s licence). The proposed change adds new Excluded Charges in relation to amounts or charges payable to those water companies for specified developer services. The effect of these changes will be to exclude the revenue for these activities (including amounts payable for reasonable administrative expenses and other overheads) from the scope of the network plus price controls under PR24. This will include any amounts payable on or after 1 April 2025 in relation to agreements or requisitions made before 1 April 2025. This consultation is currently open for responses until 15 October 2023.

These changes may result in TWUL being less able to attract equity investment in the future (see Chapter 2 “Risk Factors – Compliance risks – Impact of Ofwat adopting tighter regulatory measures to achieve financial resilience”).

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. There is scrutiny regarding the performance and financial resilience of TWUL and other water and sewerage companies at both national and local levels, with increased governmental, political and/or regulatory intervention as a result of concerns of customers and other stakeholders which could lead to investigations by Ofwat and/or DEFRA, contingency planning, rigorous enforcement of current legislation and regulation and the enactment of new, more stringent regulation and legislation. See Chapter 2 (*Risk Factors – Strategic Risks – Damage to corporate reputation or brand perception*).

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 due to 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;
- (c) duties in the WIA preclude the making or confirmation of the order; or
- (d) where it would be more appropriate to proceed under the Competition Act 1998.

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 giving 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 was 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.

Ofwat published an updated enforcement strategy in January 2017. This remains the most recent enforcement strategy. 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. Some contraventions (i.e., misreporting or causing harm to customers) will automatically result in enforcement action and in some instances, significant financial penalties.

The Water Act 2003 also provides for situations where a new licensee has caused or contributed to a breach of a Regulated Company's licence or caused or contributed to a Regulated Company contravening a statutory or other requirement, or where a Regulated Company has caused or contributed to the breach of a new licensee's licence or caused or contributed to the breach of the latter's statutory or other requirements. In those cases, Ofwat may impose an appropriate remedy. A Regulated Company may appeal a penalty order to the Court. The Court may cancel or reduce the penalty or extend the timescale to pay. The requirement to pay the penalty is suspended until the case is determined. A financial penalty may not be imposed under this provision for an infringement if it is more appropriate to proceed under the Competition Act.

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 "*Security - 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 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 His 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. Any fixed asset disposal is reported in the Annual Performance Report and in the consolidated financial statements published in the Annual Report and Accounts.

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; and (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

(a) Restrictions on the granting of Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, 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; (ii) management resources, to enable it to carry out its regulated activities; and (iii) systems of planning and internal control.

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.

(b) Restrictions on the enforcement of Security

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

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

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

Within three months of the making of a Special Administration Order or such longer period as the Court may allow, the Special Administrator must send a copy of his proposals for achieving the purposes of the order to, *inter alios*, the Secretary of State, Ofwat and the creditors of the company. The creditors' approval of the Special Administrator's proposal is not required at any specially convened meeting (unlike in the conduct of a conventional administration under the Insolvency Act). The interests of creditors and members in a Special Administration are still capable of being protected since they have the right to apply to the Court if they consider that their interests are being prejudiced. Such an application may be made by the creditors or members by petition for an order on several 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.

(c) *Enforcement of Security over Shares in Regulated Companies*

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

Economic Regulation

Overview

Economic regulation of the water industry in England and Wales was 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 had an additional fifth price control covering TWUL's Enabling Works for the TTT Project. From 1 April 2020, this has been replaced by a system of six price controls (three for water only companies) (and of which only five are applicable to Thames Water) covering: water resources, water network plus, wastewater network plus, bioresources and residential retail. Thames Water has an additional (seventh) price control covering TWUL's contribution to the TTT Project. The system retains its incentive-based properties, and each price control will operate for five years. In its report titled "*PR19 Final Determinations*", published on 16 December 2019, Ofwat set out the Final Determinations for the five-year period from 1 April 2020. The general features of each of the controls are described further below and TWUL specific information relating to the 2019 Final Determination is set out in Chapter 5 "*Description of the TWU Financing Group*". Regulated Companies were required to submit their business plans in respect of PR24 by 2 October 2023 and Thames Water submitted its draft business plan by this deadline. Ofwat is expected to publish its draft determinations for AMP8 in Spring 2024, with Final Determinations expected in December 2024. The features of the PR24 Final Methodology and a summary of TWUL's PR24 Business Plan are set out in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" – Economic Regulation – PR24 Price Control.

Key features of the latest price control framework

The main features of the current five-year price control Asset Management Period (known as AMP7, the seventh control since privatisation in 1989) include incentives for expenditure efficiency and a set of performance commitments (most of which are linked with financial incentives). AMP7 introduces within period adjustments to revenue for performance commitments (each a “PC”) made by the company over activities such as leakage, the introduction of DPC and a gated process for the development of strategic water resources. In addition, there are end of AMP adjustment mechanisms which are applied to correct for over or under revenue recovery at the end of the AMP.

Wholesale price controls

The five wholesale controls – in respect of water resources, water network plus, wastewater network plus, bioresources and the TTT Project are all based on an underlying RCV with allowed revenues indexed by CPIH inflation. Each control has an allowed level of Totex with incentives for efficiency and performance commitments supported in some cases with financial incentives. Save for the bioresources control, the wholesale controls have a revenue cap and share Totex out or under performance with customers. The bioresource control allowed revenue is based on a volume driver (the level of tonnes of dry solids) and Totex variations are not shared with customers.

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. The value of the regulatory capital value to investors and lenders is protected against inflation by adjusting the value each year by RPI for 50 per cent. of the RCV existing as at 1 April 2020 and by CPIH for the remaining 50 per cent. of opening RCV plus additions to the RCV after 1 April 2020. 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 2019 Final Determination establishes TWUL’s RCV growth in 2020-25 at 11.5% (61.9% of its RCV will be indexed to CPIH in 2025). Ofwat will also bring forward £125 million of revenue from 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 allowed revenues and the application of an allowed return on the RCV.

Revenue Forecasting Incentive: The AMP7 framework includes an incentive to set tariffs 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 ± 2 per cent. of allowed revenue attract no penalties. Should forecasting errors exceed 2 per cent., a penalty rate is applied to the amount of the error and this penalty charge will be deducted from allowed revenue with the usual two-year lag i.e., penalties relating to forecasting errors in 2020/21 would reduce allowed revenue in 2022/23. 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 rate charge.

Revenue approach

In any year, TWUL estimates projected demand, and sets tariffs accordingly, to collect the appropriate amount of revenue, as specified in the Ofwat price control. To the extent that actual volumes differ from this estimate, revenue is over or under-recovered, compared to the revenue specified in the price control.

As discussed in the section titled “*Revenue Forecasting Incentive*” above, TWUL has limited exposure to over or under-recovery in any year. Where there is over-recovery or under-recovery compared to the allowed

revenue, this is reversed in a subsequent year, to leave TWUL in an overall neutral position. In terms of timing, there is a two-year lag between any over-collection or under-collection and the subsequent true-up. In this regard, under-collection in the calendar year 2021/22 has been offset by an increase in allowed revenue in 2022/23.

TWUL does retain some exposure to bad debt risk. Where revenue has been earned from households, but is not collected, TWUL recognises a bad debt cost – for further details see section titled “*Bad debt and non-recovery of customer debt*”.

Bad debt from business customers is a cost to the non-household retailers, and not TWUL. However, TWUL does retain some bad debt exposure should a non-household retailer default (for a further description see section titled “*Competition in the Water Industry*”). In such a scenario TWUL’s gross exposure reflects the amount of revenue that has not been paid for by the termination date of the retailer that defaults. The following mechanisms are in place which protect the wholesaler by reducing this gross exposure: To the extent that TWUL has not invoiced the retailer for the water consumed, it will be able to recover the lost revenue back within the AMP, under the revenue forecasting incentive mechanism (equivalent to the true-up mechanism where demand is reduced). In April 2020, Ofwat published a decision entitled “*Covid-19 and the business retail market: Proposals to address liquidity challenges and increases in bad debt*” which indicated Ofwat’s intentions to provide additional regulatory protections if bad debt costs arising from Covid-19 exceeded levels which an efficient and prudent retailer would reasonably be expected to have planned for. In July 2021, Ofwat published a decision noting that bad debt costs had exceeded such a level and stated that it would move forward with plans to provide additional regulatory protection. Following a consultation launched in December 2021, Ofwat published its decision in February 2022 to temporarily increase the maximum price that water companies can charge business customers by 0.49%. This uplift came into effect in April 2022 and will apply for two years.

To the extent TWUL has invoiced the retailer (typically around two months of revenue by the termination date of the retailer, plus any earlier invoiced amounts where payment has been deferred beyond the normal credit terms), TWUL will be able to call upon the collateral that the retailer has provided (which may typically be between 30 and 50 days of revenue).

For the remaining exposure (i.e., the amount TWUL has invoiced, less the collateral), this will be treated as wholesale expenditure. Any such change to wholesale expenditure is shared with customers through the cost sharing mechanism, with the company bearing up to 75% of the additional cost. The customer sharing element is delivered via an end of AMP adjustment (affecting a combination of opening AMP8 RCV, and AMP8 revenue).

TWUL’s potential exposure is increased where the retailer makes use of the Ofwat proposed Covid-19 related liquidity provisions, which allow the retailer to defer some payments (see Ofwat’s publication titled “*Covid-19 and the business retail market: Proposals to address liquidity challenges and increases in bad debt*” and the subsequent decisions published in July and December 2021, referred to above, for details). Ofwat has introduced a cap on wholesalers’ net exposure due to this increase. Under the cap, the increase in TWUL’s remaining net exposure will be limited to TWUL’s average monthly charge to the defaulting retailer, although the precise mechanism has not yet been determined.

Retail price control

The household retail control differs from the wholesale controls in that there is presently no underlying RCV, and it is set in outturn prices i.e., there is no inflation indexation of allowed revenues. There is no cost variation sharing with customers. The household retail allowed revenue has a volume driver that reflects changes to the number of connected properties.

Other features of the AMP7 framework

Performance commitments and adjustments to revenue to reflect performance: The AMP7 framework introduces a revised system for incentivising service performance by TWUL. Ofwat identified 15 common performance commitments, which apply to all water and wastewater companies and each company has identified and developed several of its own bespoke commitments.

The performance commitments increase focus on relative performance and reputational impact. Most performance commitments have associated ODIs. Those performance commitments that are most important to customers have greater ODI financial and reputational impact, which reward the company if it exceeds its commitments and penalises it if it fails to achieve them. For most performance commitments the rewards and penalties associated with performance are reflected in adjustments to allowed revenues with a two-year lag and so are adjusted within the control period.

Direct Procurement for Customers (DPC): Ofwat has introduced a framework to allow large projects to be bid for by external parties. At PR19 the threshold for considering DPC was £100 million. This will change next AMP with Ofwat's PR24 Final Methodology, which proposes raising the threshold to £200 million and made DPC the default procurement model for projects this size which also meet 'discreteness' criteria. The external parties, known as the CAP, will potentially own, finance and operate / maintain the new assets and contract with the incumbent water and wastewater company to provide services. Contracts are expected to last for 15 to 25 years. The charges for the services will be added to allowed revenues (Ofwat has amended the licences of incumbent water companies currently pursuing DPC projects to enable this), and the incumbent will remain responsible for the provision of services to customers.

Strategic Water Resources: Ofwat has introduced and funded a gated process to encourage the development of strategic water resources, and have established a new regulatory alliance – the Regulators' Alliance for Progressing Infrastructure Development ('RAPID'), comprising Ofwat, the Environment Agency and the Drinking Water Inspectorate – to manage this gated process. This allows a wide range of potential projects to develop to the stage where they could be implemented, providing they pass each of the development "gates". If a project fails any gate, future funds, subject to any cost incentive mechanism, are returned to customers.

Gearing sharing mechanism: The AMP7 framework includes a mechanism to share the benefits of high gearing with customers. In practice, for companies with gearing in excess of 70 per cent. a penalty adjustment will be made to allowed revenues in AMP8.

PR24 Price Control

Ofwat published for consultation its views in July 2022 on how the price control in AMP8 would be conducted, and this was subsequently updated by the PR24 Final Methodology published in December 2022. The PR24 Final Methodology is very much a continuation and refinement of the themes that had been identified in PR19. It outlines the high-level ideas to solve the trilemma between creating value for customers, communities, and the environment. This was in the context of climate change, growing customer expectations and affordability as key challenges. Ofwat set out its focus areas and objectives:

- Increasing focus on the long term;
- Delivering greater environmental and social value;
- Refining a clearer understanding of customers and communities; and
- Driving improvements through efficiency and innovation.

Ofwat proposed to further develop markets for developer services, bioresources, water resources and the provision of large infrastructure and reduce discharges from the wastewater network. Ofwat’s PR24 Final Methodology provides the following:

- Allowed return on equity to be set based on CAPM, unless there is “strong and compelling” evidence from market-based cross-checks to deviate from this. The allowed return on equity is not to be indexed, but Ofwat may revisit the option of indexing should volatility in borrowing rates persist at the time that each of the draft and the final determinations are set;
- Decrease notional gearing to recognise the need for more equity in the notional capital structure;
- The balance sheet will be used as the primary method for setting an embedded debt allowance, excluding swaps and non-standard debt instruments;
- Setting a separate, indexed, allowance for new debt, with an acute focus on actual outperformance achieved by companies;
- Provide an early view for determining the return on capital set on the basis of a fixed allowed return on equity. Reflecting that this ‘early view’ has been set in a period impacted by volatility and movements in interest rates, Ofwat keeps open the option to use a longer trail of historical data for setting the draft and final determinations in 2024, reflecting the evolution of interest rates;
- Ensure investors receive a reasonable return, but that customers will not unnecessarily bear high bills at PR24 and beyond; require companies to assess and report on risks around their business plan using return on regulatory equity (“**RoRE**”);
- Fully index the RCV to CPIH from the start of the 2025-30 control period;
- Set standalone tax allowances at the wholesale level for each wholesale control and set the margin for the retail controls to include an allowance for tax; pass through significant changes in the tax framework outside company control (e.g. corporation tax rate) and adopt a symmetrical approach to tax clawback arrangements where companies with gearing levels that are above the notional level inject equity to strengthen their financial resilience in 2025 to 2030; and
- Each company will need to submit a plan that is financeable and provide Board assurance that it is financeable on the basis of the notional capital structure; target credit rating of at least BBB+/Baa1; cashflow metrics to be used.

A summary of the control is set out in the table below:

| | |
|----------------------------------|--|
| Price Controls | <ul style="list-style-type: none"> • No change to the number of price controls but most developer services connections excluded and assessed separately for efficiency • Average revenue control, separate efficiency challenge for bioresources (and wastewater network-plus) and include growth enhancement expenditure in Ofwat’s econometric cost benchmarking models for bioresources, moving to a market-based approach to funding bioresources • Retail price control to remain unindexed although potential for real price effects to be agreed ex ante |
| Business Plans assessment | <ul style="list-style-type: none"> • New categorisation with plans assessed for quality and ambition – outstanding / standard/ lacking ambition and inadequate • Rewards or penalties +/- 30bps on cost of equity based on categorisation • Cost sharing between 50:50 and 60:40 also based on categorisation |

| | |
|--|---|
| | <ul style="list-style-type: none"> No initial assessment of business plans stage – assessment completed and straight to draft determination. More focussed assessment areas for quality & ambition. Open challenge sessions with customers and stakeholders before and after business plan submission |
| Outcomes | <ul style="list-style-type: none"> 23 common performance commitments, limited bespoke performance commitments and delivery managed by price control deliverables All performance commitments will have financial ODIs, with symmetrical ODI rates set at ~70% of marginal benefit (using the collaborative research) where possible No dead-bands except for CRI and limited caps/collars, but further consideration to be given Expand common performance commitment levels setting. Apply outperformance only enhanced ODIs for selected performance commitments (twice the rate of standard ODIs) Target RoRE range of ± 1 to $\pm 3\%$ of RoRE (excluding C-Mex, D-MeX and BR-MeX (the latter being the business customer and retailer measure of experience)) – returns beyond $\pm 3\%$ shared 50:50 with customers and returns beyond $\pm 5\%$ shared 90:10 with customers |
| Cost assessment | <ul style="list-style-type: none"> Step change in efficiency. Econometric Base Cost Models Consultation in April 2023 Symmetrical cost adjustment claims were published in June 2023 Ofwat will consider for real price effects adjustments for energy and material inputs alongside with potential labour costs adjustments. |
| Risk, return & financial resilience | <ul style="list-style-type: none"> Wholesale WACC (weighted average cost of capital) early view of 3.23% proposed – method rejects many changes made by CMA water redeterminations and even PR19 Final Determination Cost of debt 2.60% compared to 2.14% at PR19, and will be based on industry balance sheet Full indexation of the RCV by CPIH from the beginning of AMP8 (RPI indexation retired) Additional ringfencing protections imposed via the licence to strengthen financial resilience, with additional “incentives” to be applied if progress is not considered satisfactory |
| SROs & DPC | <ul style="list-style-type: none"> SROs to continue to be separately funded Threshold from DPC increased to £200 million such that this is now the default procurement option for large projects |
| Affordability/ Vulnerable customers | <ul style="list-style-type: none"> Heavy emphasis on affordability in document No common PC for vulnerable customers though TWUL will be expected to consider this issue throughout TWUL’s submissions to the regulator |

The PR24 Final Methodology can be found on Ofwat’s website here: <https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/final-methodology/>. For the avoidance of doubt the PR24 Final Methodology is not incorporated into, and does not form part of, this Prospectus.

Business Plan

On 2 October 2023, TWUL submitted its business plan to Ofwat in respect of PR24 for the five years from 2025 to 2030 (the “**PR24 Business Plan**”). In 2022/23 prices, the PR24 Business Plan provides for £18.7 billion total expenditure, including £4.7bn investment in TWUL’s network and other assets, to maintain safe high quality drinking water, to ensure security of water supplies across London and the Thames Valley now and in the future, and to deliver further environmental improvements.

The PR24 Business Plan includes a commitment to the following areas:

(i) delivering a reliable, secure and affordable service for customers by:

- Preserving a reliable supply of water, with minimal disruption
- Replacing 500km of ageing water mains
- Maintaining safe, high-quality drinking water by replacing 54,000 lead pipes
- Upgrading 150km of sewers to lower the risk of sewer collapses
- Reducing the number of times sewage floods into properties by 17% as well as all other external sewer floods by 14%
- Providing over 530,000 households meaningful support with their water bills
- Resolving more billing and operational issues within 24 hours by improving digital infrastructure, allowing customers to resolve more issues online

(ii) creating more jobs and enhancing biodiversity for communities by:

- Hiring more local people by increasing the number of T-levels, summer internships and apprenticeships
- Investing £12 million in improving land to boost biodiversity

(iii) materially improving TWUL's environmental footprint by:

- Reducing storm overflows by 28%
- Reducing blockages caused by sewer misuse by 15%
- Reducing the total number of pollution incidents by 30%
- Opening the Thames Tideway Tunnel, London's "super sewer", the third phase of improvements that will increase the health of the river by reducing combined sewer overflows by c.95%
- Investing to improve the bathing water quality at Wolvercote Mill Stream
- Spending over £2.5bn to deliver a 22% reduction in leakage
- Reducing water use per person by 5.5%
- Continuing TWUL's roll out of 1 million smart meters to make it easier for customers to save money and find leaks
- Ensuring water security for this and future generations, including consulting and planning for a reservoir near Abingdon
- Replacing assets that come to the end of their life with carbon neutral alternatives

To ensure the PR24 Business Plan is financeable, the PR24 Business Plan is based on:

- Delivering an £18.7 billion totex programme to maintain safe high quality drinking water, ensure security of water supplies and deliver further environmental improvements
- Offering sufficient returns for further shareholder funding of £3.25 billion in AMP7 and AMP8, in addition to £0.5 billion received in March 2023
- Proposing a Weighted Average Cost of Capital (WACC) of 4.25% (CPIH real)

- Delivering c.30% real RCV growth over AMP8
- Targeting BBB+/Baa1 investment grade credit ratios
- Reducing average gearing to 71% and strengthening post maintenance interest cover ratio to 2.1x
- Assuming no dividends are paid to external shareholders during AMP8

However, TWUL cannot deliver everything that its customers and stakeholders would like to see between now and 2030 and the PR24 Business Plan reflects the difficult choices TWUL has had to make. TWUL has had constructive discussions prior to submission with its regulators on the scope of both the PR24 Business Plan and proposed regulatory arrangements, which include the scale of log-up to CPIH-real RCV for totex overspend in AMP7, allowed totex relative to actual spending in AMP8, and the maximum level of penalties that TWUL can incur under Ofwat's ODI regime. These discussions – which could influence the scope of the PR24 Business Plan, the bill impact and bill profile – will continue as TWUL seeks to secure a price control that, in the round, allows TWUL to both deliver record levels of investment for the benefit of the customers, communities and environment it serves, and offer investors an opportunity to earn the returns required to finance it. These discussions included matters such as the scale of log-up to CPIH-real RCV for totex overspend in AMP7, allowed totex relative to actual spending in AMP8, and the maximum level of penalties that TWUL can incur under Ofwat's ODIs. The final outcome of these discussions could influence the scope of the PR24 Business Plan, the bill impact and bill profile.

Based on a positive outcome to these constructive discussions, TWUL's plan assumes shareholder funding of £2.5 billion during AMP8. For further information, please see the section (*Refocused Turnaround*) in Chapter 5 (*Description of the TWU Financing Group*) and (*Risk factors - Strategic Risks - Regulatory, debt and equity funding of TWUL*) in Chapter 2.

Ofwat's draft determination is expected to be published in mid-2024 and its final determination is expected in December 2024.

Reconciliation Rulebook

A PR19 reconciliation rulebook was published in December 2020. The reconciliation rulebook sets out how Ofwat proposes to reconcile incentives, which were set as part of the 2019 Final Determination and reconcile company performance at the price review in 2024.

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 under-recovery and over-recovery is reconciled;
- any outstanding reconciliations from the previous price control (blind year adjustments); and
- household retail, where the total revenue allowance is adjusted for actual customer numbers.

Other general features of economic regulation

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.

In its Information Notice 23/09, published in September 2023, Ofwat set out its expectations for 2024/2025 in relation to water company charges. Ofwat expects water companies to be transparent about how they set charges. Customers and other stakeholders expect water company charges to comply with all relevant statutory obligations, including Ofwat's charging rules. They also expect water companies to engage meaningfully on proposed charges and ensure that the information they publish is subject to high-quality assurance. Where water companies introduce new charging policies or see changes in the cost of providing services which lead to significant increases in charges, Ofwat expects water companies to have met a high evidential bar including appropriate third-party support for why the changes are being proposed; proven interactions with customers; and evidence of engagement with and support from customer representatives, where appropriate. The notice confirms an interpretation of s148 of the Water Act that allows for trials of new and innovative tariffs following a conclusions document on charging innovation to support affordability published by Ofwat in March 2023. Companies can now commence, and conclude, a charging trial at any point in the charging year, as long as the charges that will apply to household customers selected to participate in such a trial are set out in the charges scheme to take effect from 1 April. Thames Water will be trialling a new tariff under this scheme.

In August 2023 Ofwat published a consultation on "Changing Ofwat's charging rules to support the new developer services framework" that proposes the following:

- requiring companies to tether charges for typically uncontested sites to those of typically contested sites;
- increasing transparency and supporting the market through a requirement to further unbundle charges for activities involved in service connections;
- introducing two new scenarios for which companies will publish worked examples, to offer additional assurance to developer customers at sites not represented by existing scenarios;
- providing enhanced guidance via TWUL's Regulatory Accounting Guidelines on how to allocate costs to developer services;
- carrying out a market review prior to PR29, for companies to demonstrate how they support the developer services market; and
- requiring companies to set infrastructure charges taking account of differences between actual and forecast costs and revenues.

The consultation will close on 27 October 2023 and a statutory consultation under the WIA 1991 is expected to be launched in early 2024.

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. 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.

The Water Act 2014 enabled Ofwat to create codes relating to bulk supply pricing. In January 2021, Ofwat published its guidance “Bulk charges for new appointees - guidance on TWUL’s approach and expectations”, replacing its 2018 guidance on “Bulk Charges for NAVs”. As a supplement to the bulk supply pricing principles which Ofwat published in 2011, the guidance document sets out its approach when determining bulk charges set by an incumbent water company for bulk services provided to a NAV in England and Wales.

Interim Determination of a price control

Under certain circumstances both the Regulated Company and Ofwat may 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);
- 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.

Environmental Regulation

Principal English Law

The water industry is subject to numerous regulatory requirements concerning human health and safety and the protection of the environment. Non-compliance with many of these requirements may potentially constitute a criminal offence. The application of sentencing guidelines for environmental offences by the courts has led to increases in record fines for large utility companies (including water companies) in the UK over recent years. This has in turn driven an increased focus on compliance with environmental laws and environmental permit conditions. It has also increased focus on environmental compliance issues at a senior management and boardroom level. Despite the above, the Regulatory Enforcement and Sanctions Act 2008 (as amended) allows the Secretary of State to confer powers on the regulators to impose civil penalties (such as fixed monetary penalties) on businesses as an alternative to criminal prosecution in relation to several environmental offences. Through the Environmental Civil Sanctions (England) Order 2010 the Secretary of State conferred these powers on the EA. One particularly common sanction is the use of enforcement undertakings, which is a voluntary agreement offered by entities which have committed an environmental offence. The undertaking contains measures to restore any environmental harm done as well as steps to ensure future compliance. Whilst adverse publicity related to court hearings may therefore be lessened, the EA will be required to publish details of any

sanctions imposed. Following a public consultation launched in April 2023, on 12 July 2023, the Government announced plans to strengthen the maximum civil sanctions imposable for environmental offences. As part of the proposed amendments, the current cap of £250,000 on the fines which the EA can impose on operators will be lifted. Higher penalties will also be able to be levied for offences committed under the Environmental Permitting (England and Wales) Regulations 2016, see Chapter 2 “*Risk Factors*” under “*Compliance risks – Environmental considerations – Environmental pollution offences*”.

The EA, in its report on “*The state of the environment: water quality*” dated February 2018, expressed its view that there “are still far too many serious pollution incidents” in the UK. Its ambition is to create a cleaner, healthier and better managed water environment. As part of this strategy, and in line with the new requirements introduced (or to be introduced) by the Environment Act 2021 concerning storm overflows and sewerage discharges (see Environment Act 2021 – storm overflows), the EA’s expectation is that water companies continue to reduce pollution incidents from sewer systems and sewage treatment works. The EA continues to focus on pollution incidents. In “*Water and Sewerage Companies in England: environmental performance report*” for 2019 published 2 October 2020, the EA requested that in 2020 all water companies develop, publish and implement Pollution Incident Reduction Plans. The EA is continuing to scrutinise and monitor their delivery and challenge companies where necessary to ensure they achieve the required reductions. In “*Water and Sewerage Companies in England: environmental performance report*” for 2022 published 12 July 2023, the EA noted that minimal improvement has been achieved compared to 2021 and that the sector achieved 23 stars out of a maximum of 36 (Thames Water achieved 2 stars out of a possible 4).

In line with the EA’s push to improve day-to-day performance and meet progressively higher standards of environmental protection, it announced in November 2021 in conjunction with Ofwat a major investigation into sewage treatment works across the industry. The investigation involves all water and sewerage companies, more than 2000 sewage treatment works and continued throughout 2022 and into 2023. Companies could face enforcement action, including fines and prosecutions, as a result of breaches of their legal permits or obligations and in March and June 2022 Ofwat announced that it was opening enforcement cases into six water and wastewater companies as part of its ongoing investigation, one of which is TWUL. Alongside that announcement Ofwat issued the relevant companies with notices to gather information for enforcement purposes, although it should be noted that the issuance of such notices is not necessarily an indicator that Ofwat intends to pursue formal enforcement action. On 23 June 2023, the Environment Agency published an update on its investigation. The Environment Agency’s initial assessment indicates that there may have been widespread and serious non-compliance of environmental permit conditions by all water companies. Throughout the coming months, the Environment Agency will conduct site visits to wastewater treatment works with specialist investigators. The purpose of these visits will be to secure and preserve evidence relevant to its inquiry. The companies could also incur material capital expenditure in updating and improving facilities to improve future performance and/or as a result of the EA removing or limiting the ability to make consented discharges as a result of CSOs. Such a change would mean that more investment would be needed in infrastructure to increase storm capacity. There is a risk that such expenditure will not be covered by the Periodic Review process and will require significant separate investment. See Chapter 2 “*Risk Factors*” and in particular, “*Environmental considerations*” and “*Environmental Pollution Offences*”.

Environment Act 2021 – storm overflows

Aligned with the EA and Ofwat investigation, the Environment Act 2021 has introduced new obligations on both the Secretary of State and sewerage undertakers in respect of storm overflows. Sewerage undertakers are now required to report annually by 1 April on their storm overflows, providing a range of data on the location of the overflow, the watercourse into which the overflow discharges, the frequency and duration of the discharges, the volume of each discharge and information on any investigations that have taken place or improvement works undertaken in relation to the storm overflow. Sewerage undertakers will also be required

to continuously monitor the water quality of areas which are upstream or downstream of a storm overflow or a sewerage system which discharges into a watercourse. Sewerage undertakers will also be required to secure a progressive reduction in the adverse impacts of discharges from the undertaker's storm overflows. The Secretary of State is subject to a requirement to prepare a plan for reducing discharges from storm overflows and the adverse impacts of those discharges and must also report annually on the progress made in implementing the plan. In August 2022, the Government published the "Storm overflows discharge reduction plan" (as required by the Environment Act 2021) which set water companies new targets to reduce all storm overflows. As part of this plan, by 2035, water companies are required to improve all storm overflows discharging into or near every designated bathing water and improve 75% of overflows discharging into high priority nature sites. By 2050, no storm overflows will be permitted to operate, save in the event of unusually heavy rainfall, or to cause any adverse ecological harm. In April 2023, the Government announced that the Storm Overflows Discharge Reduction Plan would be enshrined into law through the Environment Act 2021 and the targets contained in it made legally binding.

In June 2023, following a consultation as to the storm overflows performance commitment definition for PR24 launched in May 2023, Ofwat published measures that will penalise companies that do not fully monitor storm overflows. Where a storm overflow is not monitored, or a monitor is not functioning correctly, Ofwat will assume that the overflow has spilled 100 times each year when calculating a company's performance against its performance commitments.

The impact of these requirements will not only be in the increased costs required to prepare and publish the reports but may also result in an increase in investment and capital expenditure needed in order for sewerage undertakers to be in a position to report given the level of data required. There is also a concern that such investment will not be covered by the Periodic Review process. See Chapter 2 "*Risk Factors*" and in particular, "*Risk Factors – Compliance Risks – Environmental Considerations*".

Environmental Permitting Regime

The Environmental Permitting (England and Wales) Regulations 2016 (the "**Environmental Permitting Regime**") came into force on 1 January 2017 and consolidated the environmental permitting system in England and Wales previously dealt with under the Environmental Permitting (England and Wales) Regulations 2010. The Environmental Permitting Regime states that operators require an environmental permit to operate a regulated facility or cause or knowingly permit a water discharge activity or groundwater activity. Under the Environmental Permitting Regime, it is a criminal offence for a person to cause or knowingly permit any poisonous, noxious or polluting matter or trade or sewage effluent to enter controlled waters (including most rivers and other inland and coastal waters) other than in accordance with the terms of an environmental permit.

Principal EU Law and UK's departure from the EU

The activities of Regulated Companies are affected by the requirements of legislation which originally stemmed from EU Directives. Such EU Directives include the Water Framework Directive (2000/60/EC) (the "**Water Framework Directive**"), the Urban Waste Water Treatment Directive (91/271/EEC) (the "**UWWTD**") and the Industrial Emissions Directive (2010/75/EU) (the "**IED**") which are discussed below. The UK left the EU on 31 January 2020 ("**exit day**") and is no longer an EU member state. The UK-EU withdrawal agreement came into force on exit day and provided for a transition period until 31 December 2020. At the end of the transition period a new body of retained EU law was created under the EUWA. Generally, EUWA: (i) retained EU-derived domestic legislation (including UK legislation that implements EU Directives); and (ii) saved and converted into UK law most directly applicable EU legislation. The body of retained EU law includes UK legislation that implements the Water Framework Directive, the UWWTD and the IED.

The Government has stated its commitment to maintaining environmental standards and international obligations from 1 January 2021 with the UK departure from the EU and the end of the transition period after

Brexit. Existing EU environmental laws continue to operate in UK law with references to EU legislation removed and the transfer of powers from EU institutions to UK institutions. The new principal institution will be the Office for Environmental Protection (OEP), an independent statutory body. The OEP will oversee compliance with environmental law and will be able to bring legal proceedings against water companies, government and public authorities if necessary. The OEP will also scrutinise and advise the Government. Environmental principles will guide future government policy.

Water Framework Directive

The WFD rationalised 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 WFD 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. These Regulations were amended and replaced by the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017. The WFD requires, amongst other things, that Member States produce river basin management plans. These plans were required to be produced by December 2009 and updated by December 2015 and every 6 years thereafter. The river basin management plans include measures that Regulated Companies and other parties will need to undertake to achieve the objectives of the WFD. A public consultation was undertaken on the draft river basin management plans from 22 October 2021 to 22 April 2022. The Secretary of State considered these responses and published the updated River Basin Management Plans in October 2022.

In England, the EA is responsible for monitoring and reporting on the objectives of the WFD on behalf of the Government. The EA works with Ofwat, local Government, non-governmental organisations and a wide range of other stakeholders including local businesses, water companies, industry and farmers to achieve the objectives of the WFD. Some measures specific to the WFD for the final River Basin Management Plans covering 2015-2021 have been delivered and further measures totalling nearly £300 million of Totex are currently being planned for delivery in AMP7. A further £180 million of investment could also be required beyond what is funded in the AMP7 Final Determination, however a mechanism to recover this Totex has been agreed with Ofwat, should the need arise. Overall, the requirements originally imposed by the WFD are expected to continue having a significant impact on Regulated Companies in the longer term. For example, it may result in further limitations on abstraction licences and restrictions 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 the Periodic Review process there is a small risk that further investment could be required within Periodic Review periods that could not be recovered through the Totex recovery mechanism although TWUL would seek to postpone investment to the next period wherever possible. To comply with the WFD, the UK 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 (less than 20 per cent. of water bodies) and many areas without plans in place for achieving good status implies, if not long-term noncompliance, a substantial relaxation of objectives or further investment cycles with considerable investment in the future.

Priority Substances Directive

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 was amended by Directive 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. Under the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017, the Secretary of State and

the EA (amongst others) must exercise their relevant functions to ensure compliance with the Environmental Quality Standards laid down in the Priority Substances Directive (as amended). However, to date only two sites have been specified for specific upgrades and for many others the excessive costs have not been justified to date by sufficient benefits. TWUL's obligations also include delivery of a share of a further national comprehensive sampling and research programme, Chemical Investigations Programme (3). This is expected to identify further sites that will need investment and will also consider the impacts of microplastics and antimicrobial resistance. This work will continue for the duration of AMP7, until March 2025.

Industrial Emissions Directive

In 2013, the Industrial Emissions Directive ("**IED**") was transposed into UK law through the Environmental Permitting Regulations. Previously unpermitted and exempt water industry anaerobic digestion operations were to be permitted as an installation and be required to meet Best Available Techniques (BAT) by 17 August 2022. The EA deferred the need to submit permit applications until a decision was reached on whether the IED applied to the Water industry. In 2019, the EA confirmed that IED did apply to the water industry but this was too late to meet the PR19 funding cycle. To date, only 7 permit applications by the water industry have been agreed by the EA, which includes TWUL's Reading sludge treatment centre. TWUL currently remains in the process with the EA National Permitting Service of agreeing permit conditions for the 25 sludge treatment centres under TWUL's operation. The EA's current regulatory timescale for the implementation of any capital asset improvement requirements determined through the permitting process requires implementation to occur within 12 months or, by exception, by 31 December 2024. The EA's guidance on the requirements of complying with the IED have shifted considerably over time and discussions are currently being held with DEFRA, Ofwat and the EA by the industry on the requirements, required funding and timescales in meeting the IED.

EU Floods Directive

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 and entered into force on 26 November 2007. The aim of the EU Floods Directive was to establish a framework for the assessment and management of flood risks, aiming to reduce the adverse consequences to human health, the environment, cultural heritage and economic activity. The EU Floods Directive required Member States to firstly carry out a preliminary flood risk assessment by 22 December 2011, which included considering historic floods and where similar future events might be envisaged. Based on such assessment, Member States were then required to identify each river basin district (or similar) for which potential significant flood risks exist or might be considered likely to exist. For such areas, Member States were then required to draw up flood risk maps by 22 December 2013 and establish flood risk management plans focused on prevention, protection and preparedness by 2015. The EU Floods Directive applies to inland waters as well as all coastal waters across the whole territory of the EU. The EU Floods Directive shall be carried out in coordination with the WFD, 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. In December 2022, the Environment Agency published updated flood risk management plans for ten river basin districts, including the Thames river basin district.

The EU Floods Directive was implemented into English law through the Flood Risk Regulations 2009 and the Flood and Water Management Act 2010 ("**FWMA**"). The key requirements within the FWMA are the requirement for the EA to create a National Flood and Coastal Erosion Risk Management Strategy, which several organisations must follow; the requirement for leading local flood authorities to create local flood risk management strategies; and a requirement for relevant authorities to co-operate in the exercise of their flood and coastal risk management functions. The FWMA included several amendments to other legislation, which introduced, amongst other things, a revised 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 and an ability for water companies to offer concessions to community groups for surface water drainage charges.

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 in England may choose their water and/or sewerage retailer. 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) the Water Act 2003 introduced a statutory framework to allow water supply licensees to introduce water into the undertaker's supply system 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) a market operator (MOSL) for the non-household retail market in England that processes transactions, facilitates new companies to enter the market and ensures Water companies are held to account for their performance. MOSL administers a code with retailers, wholesalers, customer's and stakeholders that modify identify – and implement – ways to improve the market;
- (h) eligible customers are also able to choose to self-supply their own premises. The customer buys water supply and wastewater services from the water company and provides their own retail services;

- (i) Ofwat has concurrent powers with the CMA to apply UK 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
- (j) 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 completed mergers or anticipated mergers between two or more water enterprises where the value of the turnover of the water enterprise being taken over, and at least one of the water enterprises already belonging to the person making the takeover, are greater than £10 million, unless the CMA believes that:

- for anticipated mergers, the arrangements are not sufficiently far advanced or not sufficiently likely to justify a reference;
- the water merger has not prejudiced, or is not likely to prejudice, Ofwat’s ability in carrying out its functions to use comparative regulation; or
- the water merger has prejudiced, or is likely to prejudice, Ofwat’s ability to make comparisons between water enterprises, but that this prejudice is outweighed by relevant customer benefits (RCBs) relating to the merger.

The relevant turnover for these purposes is limited to the provision of services as a water or water and sewerage company, i.e., the ‘regulated’ turnover.

Before making a first phase decision, the CMA must consult with Ofwat.

Where the CMA is under a duty to refer a water merger for a second phase investigation it may accept undertakings in lieu (“**UILs**”) to remedy, mitigate or prevent the merger’s prejudicial effect on Ofwat’s ability to make comparisons between water enterprises. When forming a view on UILs, the CMA must consider the need to achieve as comprehensive a solution to that effect on Ofwat as is reasonable and practicable. Moreover, the CMA must request and consider Ofwat’s opinion on the effect of the offered UILs.

Remedies imposed by the CMA 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 and number of the parties involved, such mergers may also require notification to the European Commission under the EU merger regime (and other regimes worldwide) separate to any CMA review.

Furthermore, the Water Act 2014 also imposes a 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. In July 2017, one merger (Severn Trent Plc / Dee Valley Group plc) took place under this new regime with the remaining mergers of water companies having been reviewed by the CMA under the general merger regime. In June 2021, the CMA announced that it was opening an investigation into the completed acquisition by Pennon Group plc of Bristol Water Holdings UK Limited. The investigation has now been closed on the basis of

undertakings offered by Pennon Group plc to provide separate reporting information for South West Water and Bristol Water, to enable Ofwat to maintain separate wholesale water price controls, in order that Ofwat has sufficient comparative information between water companies.

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 an anticipated or completed merger which meets the relevant thresholds, namely where the acquired enterprise generates turnover in the UK of £70 million or more, or the acquiring and acquired enterprises supply or acquire at least 25 per cent. of the same goods or services supplied in the UK (or a substantial part thereof) and the merger increases that share of supply. 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.

A BEIS consultation paper was published in July 2021 “*Reforming Competition and Consumer Policy*”. It seeks to streamline the investigation processes of UK merger control. The Water merger regime has not materially changed as a result of this.

Regulatory Developments

Water Act 2014

The Water Act 2014 aimed to implement legislative changes to strengthen the water sector’s ability to respond to the challenges of a growing population. It also aimed 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 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 that 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.

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.

Regulatory Accounting Guidelines

In April 2023, Ofwat published updated Regulatory Accounting Guidelines 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. The annual performance reports show both operational and financial information that companies are required to publish about their regulated activities. This is in addition to any statutory accounts required in the UK under the Companies Act 2006.

The Retail Exit Code

In July 2019, Ofwat published “Future protections for business retail customers: Decision on Retail Exit Code – price protections”. The Retail Exit Code (“**REC**”) places limits on the price and non-price terms that retailers can place in their schemes of terms and conditions for deemed contracts. The latest version of the REC, which became effective on 1 April 2023, was published in February 2023.

Ofwat Leakage Investigation

In 2017, Ofwat launched an investigation on the failure of TWUL to meet its commitments to reduce leakage in 2016/2017. Ofwat found that TWUL had breached two of its legal obligations in relation to its management of leakage reduction, and TWUL agreed pursuant to a Section 19 undertaking to implement certain financial measures. Following a meeting with Ofwat in December 2020 TWUL has received confirmation from Ofwat that many of the Section 19 undertakings related to leakage have been completed and are now considered closed. This includes the financial adjustments and bill rebates. TWUL continue to provide six-monthly reports to Ofwat on compliance with the remaining undertakings mainly related to customer engagement, operational oversight, and condition P. To date, ten reports have been submitted, in May and November of each year, from November 2018 to May 2023.

Water trading arrangements

The regulatory regime allows for a water company responsible for supplying water in an area buys it from a third-party provider rather than developing its own water resources. Trades could be for raw or treated water. In June 2023 Ofwat published the final guidance on the requirements and principles that must be addressed in trading and procurement codes for water companies to claim water trading incentives for new trades. There are

twelve principles the most important of which include: non-discriminatory procurement by importers; and economic purchasing by importers; use of competitive processes by importers and transparency in the agreement.

Ofwat Competition Act Investigation

Please refer to the section titled “*Litigation*” for details of the completed investigation by Ofwat under the Competition Act 1998 in relation TWUL’s approach and policies around installation of digital smart meters and data logging devices.

Grenfell Tower Inquiry

TWUL is participating in the Grenfell Tower Inquiry as a core participant. The Inquiry’s Phase 1 Report was published on 30 October 2019 and the Government published its formal response to the Phase 1 Report and the Chairman’s recommendations on 21 January 2020. The formal response did not include any interim recommendations that were relevant to TWUL. The Inquiry’s Phase 2 hearings commenced on 27 January 2020 and ended on 21 July 2022. The Inquiry’s water expert, Dr Stoianov, gave evidence during the hearings for Module 7 and Phase 2 and his report will be considered. The Inquiry is currently preparing its final report.

Customers’ Interests

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 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. The changes predominately relate to updating compensation for interruptions to water supply.

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.

The new codes for Water and Sewerage adoptions went live in January 2021. One of the requirements for companies is to provide “redress” for failing to meet certain standards in the self-lay process. This “redress” will typically take the form of reimbursement of any application and design fees for that job. The code also outlines how compensation for consequential loss can be claimed but this is not a new obligation.

Strategic regional options (“SRO”) and RAPID

Under PR19 Ofwat identified 17 cross-company, strategic water resource solutions, proposed in companies’ water resources management plans (“WRMPs”) and company business plans, which will be vital to meet future

demands from population growth and climate change over the coming decades, and to build the country's resilience to a 1-in-500 year drought.

For the Final Determination Ofwat allocated up to £469 million for companies to investigate and develop integrated strategic regional water resource solutions during AMP 7 (2020-25). This funds Thames Water to develop solutions on behalf of customers that have the potential to be 'construction ready' during AMP8 (2025-30), and that protect and enhance the environment and benefit wider society. £179 million of the funds were allocated to Thames Water, for projects it is undertaking in partnership with other companies.

Coupled with this proposal, RAPID, a new organisation sponsored by Ofwat, has been formed to help accelerate the development of these new water infrastructure projects, oversee the 'gated' process and design future regulatory frameworks. It consists of a joint team drawn from the three water regulators Ofwat, Environment Agency and Drinking Water Inspectorate. It seeks to provide a seamless regulatory interface, working with the industry to promote the development of national water resources infrastructure that is in the best interests of water users and the environment.

| SRO Scheme | Thames Allocation | Total Allocation |
|---|------------------------------|-----------------------------|
| | <i>(millions)</i> | |
| South East Strategic Reservoir Option (SESRO)..... | £81.1 | £121.7 |
| London Effluent Reuse | £62.9 | £62.9 |
| Severn to Thames Transfer (STT)..... | £22.2 | £66.6 |
| Thames Water to Southern Water Transfer (T2ST)..... | £7.5 | £15.0 |
| Thames to Affinity Regional Transfer (T2AT)..... | £5.5 | £10.9 |
| Total | £179.2 | £469.0 |

The funds are allocated via a 4-stage gate process. On completion of each gate a further element of funds is released at each gate.

| Gate | Gate Description | % of max development allowance |
|--------------------|--|---|
| Gate 1 | Initial concept design and decision making | 10 |
| Gate 2 | Detailed feasibility, concept design and multi-solution decision | 15 |
| Gate 3 | Developed design, finalised feasibility, pre-planning investigations and planning applications | 35 |
| Gate 4 | Planning applications, procurement and land purchase | 40 |
| Total | | 100 |

To protect customers, Ofwat proposed an end of period reconciliation mechanism that will apply to the funding. This comprises a cost sharing mechanism and penalties up to 30% in total for late gate delivery and/or poor-quality deliverables. RAPID is currently considering circumstances where there would be a need to allow funding to straddle gates and AMPs without penalising companies.

Thames Water and its partners submitted initial feasibility designs to RAPID for Gate 1. All schemes passed this initial assessment, and proceeded to Gate 2 submissions, which were made in November 2022. As well as updated concept designs, these submissions included proposals for how the governance and commercial delivery model of these schemes could best be take forward to deliver best value for customers. Gate 2 submissions examined Gate 1 solutions in more detail, regarding funding for continued investigation and development of solutions is aligned to water resources planning. They were presented, reviewed and passed by RAPID in June 2023. Gate 3 of the RAPID programme acts as a checkpoint before the solutions prepare for Development Consent Order (DCO) or Town and Country Planning Act (TCPA) applications.

Regional modelling of water resources is being undertaken by ‘Water Resources South East’ (WRSE) – an alliance of regional water companies – and will inform water companies’ statutory WRMPs, which will contain firm proposals for which SRO schemes should be progressed through to construction during AMP8, as part of the PR24 process.

North East London Resilience enhancement programme

Thames Water at PR19 requested investment of £350 million over the 2020 to 2030 period to improve the resilience of water supplies in northeast London. At the PR19 Final Determination Ofwat made a conditional allowance of £180 million for the period 2020-25, which is based on the delivery of a planned programme of work, outcomes and outputs, through a subsequently agreed 6 stage gated process, to investigate risks to resilience and the mitigation of risk to water supplies in London. The allowance is conditional on progression through the gates to Ofwat’s satisfaction. It is also subject to a customer protection mechanism to ensure high quality and timely delivery. Under the mechanism, where it fails to deliver to Ofwat’s satisfaction, Thames Water will return the full allowance, or part of the allowance to customers through an end of period reconciliation.

London water network improvement enhancement allowance

Thames Water agreed a conditional allowance, with Ofwat, at PR19 of £300 million over the 2020 to 2025 period to improve the London water network. Ofwat will return the allowance to customers unless Thames Water demonstrates that it understands the challenges facing its network, produces a well thought-through plan in a defined time frame with clear and measurable deliverables and identifies, and commits to new performance standards that capture likely benefits to performance from any unplanned work. Ofwat has adopted a similar approach to the SRO programme and implemented a 5 stage-gate process. If Thames Water satisfies this, it will result in the release of funds to complete the programme. Thames Water further intends to invest £400million from funds drawn from the Kemble Shareholders into additional projects over and above the allowance. Thames Water is working with Ofwat on the approach and appropriate customer protection measures. Gate 1 submission was made on 21 May 2021 including proposal for a significant shareholder contribution. In November 2022, Ofwat informed Thames Water that it could exit the gated process with respect to this conditional allowance and deliver the agreed scope subject to appropriately adjusting its PR19 performance commitments to reflect the forecast benefits resulting from the conditional allowance. In February 2023, Ofwat published notice of its intention to change the PR19 Final Determination of Thames Water accordingly.

Guildford Project

In 2019, Thames Water negotiated the relocation of its Guildford sewage treatment works with the Guildford Borough Council (GBC). This relocation will allow GBC (and its partners) to develop a very large housing development (named Slyfield) on the land of Thames Waters’ former sewage treatment works (plus surrounding area). Negotiated terms involve swapping the land of the old works for the land of the new works (which GBC held previously), and additionally, GBC fully compensating Thames Water for the costs (as forecast) that Thames Water incurs in developing and constructing the new works (~£112 million). Thames Water anticipates this relocation (which will be enacted over the next years) will materially benefit Thames Water as new works,

over the next decades, will require significantly lower maintenance and replacement costs compared to the old works.

Ofwat Green Economic Recovery (GER) Final Decision

In July 2020 water companies were asked to bring forward new proposals and accelerate existing ones to deliver an innovative and more resilient future for customers, society and the environment. This would help the country's green economic recovery from Covid-19.

A final decision on the proposals submitted to the regulator was made in July 2021. Ofwat gave TWUL an allowance of up to £71.917m to install 204,700 additional smart meters. This is approximately £2.137m higher than a projected outcome using Ofwat's draft decision numbers. A £21.583m gap remains between TWUL's requested funding and Ofwat's allowed funding recovery.

In September 2023, Thames Water asked Ofwat to consider adjusting the GER funding conditions in light of the effect which the summer drought of 2022 and the subsequent freeze-thaw event has had on the achievability of its end of AMP leakage target. The outcome of these discussions will determine if Thames Water can proceed with the GER programme.

Recent Licence Changes

A new Licence Condition E1 was introduced in 2020 that prevents Thames Water from showing undue preference towards (including towards itself), or undue discrimination against other relevant undertakers, or any other person over a series of defined services such as water resources, discovery of leaks, the laying of lateral drains and bioresources. TWUL is also prevented from releasing some associated information from the activities identified in the new licence condition.

CHAPTER 7 OVERVIEW OF THE FINANCING AGREEMENTS

Security Trust and Intercreditor Deed

General

The intercreditor arrangements in respect of the TWU Financing Group (the “**Intercreditor Arrangements**”) are contained in the STID and the CTA. The Intercreditor Arrangements bind each of the Secured Creditors, the Secondary Market Guarantors (who chose to accede to the STID (as described below)) and each of the Obligors.

The Secured Creditors include the Senior Debt Providers that have entered into or acceded to the STID. Any new Authorised Credit Provider (or in respect of Bondholders, any additional Bond Trustee or in respect of the Secured TWUF Bondholders, any additional TWUF Bond Trustee) will be required to accede to the STID and the CTA. Secondary Market Guarantors may choose to accede to the STID for the purpose of the voting provisions relating to Majority Creditors but will not accede as or constitute Secured Creditors and will have no direct claim against any member of the TWU Financing Group (see the section “*Secondary Market Guarantors*” below).

Unsecured creditors are not and will not become parties to the Intercreditor Arrangements and, although ranking behind the Secured Creditors in an administration or other enforcement, will have unfettered, independent rights of action in respect of their debts. However, the aggregate amount of unsecured Financial Indebtedness is restricted under the CTA.

The purpose of the Intercreditor Arrangements is to regulate, among other things: (i) the claims of the Secured Creditors; (ii) the exercise, acceleration and enforcement of rights by the Secured Creditors and the rights of the Secondary Market Guarantors to participate in any related vote; (iii) the rights of the Secured Creditors and the Secondary Market Guarantors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during a Standstill Period (see the section “*Standstill*” below); (v) the Entrenched Rights and the Reserved Matters of the Secured Creditors; and (vi) the giving of consents and waivers and the making of modifications to the Finance Documents.

The Intercreditor Arrangements also provide for the ranking in point of payment of the claims of the Secured Creditors, both before and after any enforcement of the Security, and for the subordination of all claims among the TWU Financing Group (other than claims in respect of the Issuer/TWUL Loan Agreements and the TWUF/TWUL Loan Agreement funded through the raising of Senior Debt). Each Secured Creditor (other than the Security Trustee acting in such capacity) and each Obligor has given certain undertakings in the STID which serve to maintain the integrity of these arrangements.

Secondary Market Guarantors

Any Eligible Secondary Market Guarantor that has entered into secondary market financial guarantee arrangements in respect of any Class A Unwrapped Bonds or any Secured TWUF Bonds and that wishes to become a Class A DIG Representative in respect of such Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds, may deliver a notice to the Security Trustee and, in the case of Class A Unwrapped Bonds, the Bond Trustee or, in the case of Secured TWUF Bonds, the relevant TWUF Bond Trustee (a “**FG Covered Bond Notice**”) in accordance with the terms of, and in the form scheduled to, the STID. A 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 a 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 immediately 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 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 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 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 a 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; and
- (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 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 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 any proposal:

- (a) that is the subject of an Entrenched Right or Reserved Matter in favour of the Bondholders; or
- (b) 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 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 a 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 a FG Event of Default which is continuing in respect of the relevant Financial Guarantor of those Wrapped Bonds) and/or the Unwrapped Bondholders (excluding the Bondholders in respect of any Class A FG Covered Bonds, other than in respect of Entrenched Rights or Reserved Matters of the Bondholders or whilst a Default Situation is continuing), 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 is not, prior to a Default Situation, 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 will 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 will 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 will 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 paragraph (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 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Class A Debt) Class B DIG Representatives in respect of 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class B Debt vote to terminate the Standstill Period (see the section “*Standstill Extension*” below); or
- (c) the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period.

The occurrence of a Standstill will not of itself prevent the Issuer drawing under the Liquidity Facilities.

Upon termination of a Standstill Period (except by virtue of the matters referred to in paragraph (c) above), each Secured Creditor will be entitled to exercise all rights which may be available to it under any Finance Document (other than any Security Document) to which it is a party including directing the Security Trustee to take Enforcement Action.

Standstill Extension

The Standstill Period shall automatically be extended beyond 18 months:

- (a) for a further 120 days unless Class A DIG Representatives in respect of 50 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 120-day period to terminate the Standstill Period;
- (b) following the period referred to in paragraph (a) above, for a further 60 days unless Class A DIG Representatives in respect of 33⅓ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 60-day period to terminate the Standstill Period; and
- (c) following the period referred to in paragraph (b) above, for successive periods each of 60 days unless Class A DIG Representatives in respect of 10 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during each such further 60-day period to terminate the Standstill Period and a vote shall be taken of the relevant Class A DIG Representatives on the expiry of each subsequent period of 60 days for so long as the Standstill Period continues as to whether the Standstill Period should continue for a further period of 60 days.

The Bond Trustee will 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 a 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 a 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 paragraph (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 “*Cash Management - 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 sections “*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 paragraph (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 Security 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 Event of Default or Potential Event of Default being outstanding or will result from entry into and performance under the Transaction Documents;
- (e) 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 that 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 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 Insurances, 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 (provided that each member of the TWU Financing Group may enter into any Intra-Group Treasury Transaction);
 - (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, where applicable, 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 Book Debt 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, except for in circumstances where the asset is acquired in the ordinary course of its business carried on in the normal course and provided that the primary purpose of such transaction is not 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 payable 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 declare, make or pay any Restricted Payments otherwise than in accordance with the Finance Documents and out of monies received by it, directly or indirectly, from TWUL which have been properly paid by TWUL as a Distribution or as set out under the CTA.
- (c) TWUL has further undertaken to maintain at least 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).
- (d) Additionally, TWUL has undertaken, among other things:
- (i) to ensure that the nature of its business is limited to the Business;
 - (ii) to conduct its Appointed Business in the name of TWUL only and to ensure its business separation from the Thames Water Group or any Associate is maintained;
 - (iii) not to permit, agree to or recommend any suspension or the abandonment of all or a material part of the operation of its Appointed Business;
 - (iv) if it exceeds the Permitted Non-Appointed Business Limits, to dispose of or reduce all or part of its Permitted Non-Appointed Business within six months of the date on which the Permitted Non-Appointed Business Limits are first exceeded so that the Permitted Non-Appointed Business Limits are complied with on the next Calculation Date immediately following the expiry of the relevant six-month period;
 - (v) to comply in all material respects with the Instrument of Appointment;
 - (vi) not to agree to any amendment or variation of the Instrument of Appointment;
 - (vii) to comply with applicable relevant Environmental Laws and Environmental Approvals applicable to it and to notify the Security Trustee of any Environmental Claims;
 - (viii) to effect and maintain those insurances in connection with its Business as are required under the CTA;
 - (ix) to procure that any Outsourcing Agreement or Capex Contract entered into on and from the Initial Issue Date complies with the Public Procurement Rules (if such Outsourcing Agreement or Capex Contract would be an agreement to which the Public Procurement Rules would apply) and the Outsourcing Policy;

- (x) to ensure it has adequate financial and management resources to enable it to discharge its core obligations under the Instrument of Appointment;
 - (xi) (A) following receipt of notice of termination of the Instrument of Appointment, use its reasonable endeavours to ensure that: (i) a Transfer Scheme is agreed between TWUL, the transferee and Ofwat by a date not less than two years prior to the expiration of such notice; (ii) any such Transfer Scheme will not be materially prejudicial to the Secured Creditors; and (iii) the Security Trustee is kept fully informed of the consultation process with Ofwat and is consulted in relation thereto if TWUL becomes subject to any Transfer Scheme; and (B) subject to its obligations under the WIA, not to agree to any Transfer Scheme without the consent of the Security Trustee;
 - (xii) as soon as reasonably practicable, to apply to Ofwat for an 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.
- (e) 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;
 - (ii) only to:
 - (A) implement Deferrals of K at a time when no Event of Default is subsisting or if required by Ofwat;
 - (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.

(f) Additionally, the Issuer and, in the case of paragraph (ii) below, TWUL has undertaken, among other things:

- (i) to restrict its business to certain matters in accordance with the Finance Documents;
- (ii) not to enter into any Authorised Credit Facility (other than in respect of any Subordinated Debt) unless following such entry into such Authorised Credit Facility the aggregate nominal outstanding Financial Indebtedness of the TWU Financing Group which has an expected maturity falling within:
 - (A) any period of 24 consecutive months shall not exceed 20 per cent. of RCV for the time being; and
 - (B) 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 (ii), “expected maturity”: (A) includes 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; and (B) in respect of any Financial Indebtedness incurred under a revolving credit facility, means the final maturity date on which all outstanding loans under such revolving credit facility must be repaid in full. “expected maturity” will not include the last date of an interest period in respect of any Financial Indebtedness incurred under a revolving credit facility that is capable of being rolled over and re-borrowed immediately at the end of the relevant interest period of such Financial Indebtedness (commonly referred to as a “rollover loan”);
- (D) to use all reasonable endeavours to procure and maintain the admission of all listed Bonds for trading on the London Stock Exchange or Euronext Dublin;
- (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.

(g) 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
- (ii) 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 one or more 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 TWUF Bond Debt and Class B Debt (although it will not be a Trigger Event if it is triggered as a direct result of a banking error and remedied by such amount being repaid within three Business Days without such repayment being funded by a further drawing under a DSR Liquidity Facility).

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

(f) *Enforcement Order*

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

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

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

(h) *Termination of Instrument of Appointment*

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

(i) *Event of Default*

An Event of Default is continuing.

(j) *Referral regarding Substantial Effects Clause*

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

(k) *Audit Qualification*

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

(l) *Adverse Governmental Legislation*

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

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

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

(n) *Conduct of Business*

The Permitted Non-Appointed Business Limits are breached.

(o) *Adverse Final Determination of K*

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

(p) *RPI Linked Hedging Agreements*

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

Trigger Event Consequences

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

- (a) no Obligor may make Restricted Payments and TWUL must not declare and must stop any implementation of any Deferrals of K;
- (b) TWUL must provide such information as to the relevant Trigger Event as may be properly requested by the Security Trustee. TWUL must discuss with the Security Trustee (at a mutually convenient time and

location) its plans for appropriate remedial action and the timetable for implementation of such action. Any agreed remedial action must then be implemented by TWUL;

- (c) the Security Trustee, may, acting on the instructions of the Majority Creditors, commission an Independent Review to be conducted by technical advisers to the Security Trustee (appointed subject to prior consultation with TWUL) to examine the causes of the relevant Trigger Event and recommend appropriate corrective measures;
- (d) subject to prior notification to TWUL if practicable, the Security Trustee shall be entitled to discuss the relevant Trigger Event and any Remedial Plan with Ofwat; and
- (e) restriction on payments by TWUL under Outsourcing Agreements and/or Capex Contracts with Associates which do not comply with the Outsourcing Policy.

Trigger Event Remedies

At any time when the Issuer 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 within five days 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 “*Security Trust and Intercreditor Deed - 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 interest or any Income on Authorised Investments which shall be credited to the Account upon which such interest accrued and/or 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, manages the application of cash in accordance with the Payment Priorities (as set out below) on behalf of the Issuer. 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 (defined as "Permitted Payments" in the CTA) 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 (f) and (l) 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 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 (f) and (g) below);
- (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 (p) 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 (p) 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 (f) 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 (p) 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 (p) 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 (p) 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 (f) and (g) 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 (a) to (t) inclusive above 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 (p) 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 (a)-(f) inclusive and, after deducting all payments to be made in priority thereto, items (i), (l) or (s) 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 “*Additional Resources Available - 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) above 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 (a), (k), (l) and (o) 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 with the Security Trustee pursuant to which:

- (a) TWH unconditionally and irrevocably:
 - (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 unconditionally and irrevocably:
 - (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 monies 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 2 “*Risk Factors*” under “*Land Asset Security*” 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 | | GUARANTEE |
|--|------|---|
| Fixed and floating charge (principal secured asset is its holding of shares in TWUL) | TWH | Guarantees all obligations of TWUL and the Issuer under the Finance Documents |
| Fixed and floating charge over its property, assets and | TWUL | Guarantees all obligations of the Issuer under the Finance Documents |

undertaking, all subject to the
WIA and the Instrument of
Appointment

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 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 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 5 August 2021 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.

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 5 August 2021 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, the Parent, Kemble Water Finance Limited, Kemble Water Holdings Limited, Kemble Water Eurobond plc 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 London Stock Exchange on which such Bonds are admitted to listing and/or trading. References in the Conditions to “Bonds” are, as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme.

Thames Water Utilities Finance plc (the “**Issuer**”) has established a guaranteed bond programme (the “**Programme**”) for the issuance of up to £15,000,000,000 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 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 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 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), and electronic copies are also available via email to Bondholders upon request to the TWUF Bond Trustee, the Principal Paying Agent, the Transfer Agents and the Registrar (as applicable) and satisfactory proof of holding.

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 that 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 UK Prospectus Regulation, 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 Individual 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 is not 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 (without enquiry or liability) 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 are (on providing sufficient evidence of identity) 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**”) unconditionally and irrevocably guarantees the obligations of each other Obligor under the Finance Documents and TWUL and the Issuer will unconditionally and irrevocably 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 a 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 and/or pre-funded 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 is not 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 (without enquiry or liability) 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.

The amount of interest payable per Calculation Amount in respect of any Bond for any Fixed Interest Period shall be equal to the product of the Interest Rate, the Calculation Amount specified, and the Day Count Fraction for such Fixed Interest Period and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(e) (*Rounding*), unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Period, in which case the amount of interest payable per Calculation Amount in respect of such Bond for such Fixed Interest Period shall equal such Interest Amount (or be calculated in accordance with such formula).

Where any Interest Period comprises two or more Fixed Interest Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Fixed Interest Periods.

As used in these Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period or if no Fixed Coupon Amount is specified in the applicable Final Terms or Drawdown Prospectus, such interest payable per Calculation Amount shall be calculated: (i) in the case of Bonds other than Indexed Bonds, by applying the Interest Rate to the Calculation Amount specified, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(e) (*Rounding*); and (ii) in the case of Indexed Bonds, on an Actual/Actual basis.

(b) *Interest on Floating Rate Bonds*

This Condition 6(b) is applicable only if the relevant Final Terms or Drawdown Prospectus specifies the Bonds as Floating Rate Bonds.

(i) *Interest Payment Dates*

Each Floating Rate Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms or Drawdown Prospectus; or
- (B) if no Specified Interest Payment Date(s) is/are expressly specified in the applicable Final Terms or Drawdown Prospectus, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms or Drawdown Prospectus after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. The end date of such Specified Period will be a date when banks are open in the Business Centre(s) specified in the relevant Final Terms, if applicable.

Such interest will be payable in respect of each Interest Period.

(ii) *Interest Rate(s)*

The Interest Rate(s) payable from time to time in respect of the Floating Rate Bonds will be determined in the manner specified herein and the provisions below relating to either Screen Rate Determination or ISDA Determination, depending upon which is specified in the applicable Final Terms or Drawdown Prospectus.

- (A) Save where the Reference Rate specified in the applicable Final Terms is SONIA, where “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 EURIBOR, 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(1) (*Definitions*)), being EURIBOR, as specified in the applicable Final Terms or Drawdown Prospectus, which appear on the Page at the Relevant Time (as defined in Condition 6(1) (*Definitions*)) on the relevant Interest Determination Date;
- (3) subject to Condition 6(b)(iii) below if, in the case of (1) above, such rate does not appear on that Page or, in the case of (2) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable:
 - (A) the Issuer (on behalf of the Agent Bank or the Calculation Agent, as applicable) will request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 6(1) (*Definitions*)) to provide the Agent Bank (or the Calculation Agent, if applicable) with 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(1) (*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) the Agent Bank (or the Calculation Agent, if applicable) shall determine the arithmetic mean of such quotations; and
- (4) subject to Condition 6(b)(iii) below, if fewer than two such quotations are provided as requested by the Issuer in Condition 6(b)(ii)(A)(3), 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(1) (*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(1) (*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(1) (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 EURIBOR, the first day of that Interest Period; or (2) in any other case, as specified in the relevant Final Terms or Drawdown Prospectus.

Notwithstanding anything included in these Conditions or any applicable Final Terms, the Agent Bank when nominated as the Calculation Agent in relation to such Bonds will have no obligation to exercise any discretion (including, but not limited to, determinations of alternative or substitute benchmarks, successor reference rates, screen pages, interest adjustment factors/fractions or spreads, market disruptions, benchmark amendment conforming changes, selection and polling of reference banks) and any such discretion shall instead (unless an alternative method for determination by any entity other than the Calculation Agent is specified in these Conditions) be exercised by the Issuer (following consultation with any such independent advisers as it deems necessary).

- (A) If “Screen Rate Determination” is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, and the Reference Rate specified in the applicable Final Terms is SONIA, the Interest Rate applicable to the Bonds for each Interest Period will be Compounded Daily SONIA as specified in the applicable Final Terms plus or minus the Margin (as specified in the applicable Final Terms), all as determined by the Agent Bank.

“**Compounded Daily SONIA**”, with respect to each Interest Period, will be calculated by the Agent Bank on the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

“**d**” is the number of calendar days in the relevant Interest Period;

“**d_o**” is the number of London Banking Days in the relevant Interest Period;

“**i**” is a series of whole numbers from one to **d_o**, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Period to, and including, the last London Banking Day in the relevant Interest Period;

“**London Banking Day**” or “**LBD**” means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

“**n_i**” for any London Banking Day “**t**”, means the number of calendar days from and including such London Banking Day “**t**” up to but excluding the following London Banking Day;

“**p**” is the number of London Banking Days included in the Reference Look-Back Period, as specified in the applicable Final Terms provided that “**p**” shall not be less than three London Banking Days at any time and shall not be less than five London Banking Days without prior written approval of the Agent Bank;

“**Reference Look-Back Period**” is as specified in the applicable Final Terms;

“**Reference Period**” means, in respect of an Interest Period, the period from and including the date falling “**p**” London Banking Days prior to the first day of such Interest Period and ending on, but excluding, the date falling “**p**” London Banking Days prior to the Interest Payment Date for such Interest Period (or the date falling “**p**” London Banking Days prior to such earlier date, if any, on which the Bonds become due and payable);

the “**SONIA Reference Rate**”, in respect of any London Banking Day, is a reference rate equal to the daily Sterling Overnight Index Average (“**SONIA**”) rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Page or, if the Page is unavailable, as otherwise published by such authorised distributors (on the London Banking Day immediately following such London Banking Day); and

“**SONIA_{t-pLBD}**” means, in respect of any London Banking Day, falling in the relevant Interest Period, the SONIA Reference Rate for the London Banking Day which is “**p**” London Banking Days prior to the relevant London Banking Day “**t**”.

- (B) If, subject to Condition 6(b)(iii) (*Benchmark discontinuation*), in respect of any London Banking Day in the relevant Reference Period, the SONIA Reference Rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA Reference Rate shall be:
- (1) (i) the Bank of England’s Bank Rate (the “**Bank Rate**”) prevailing at close of business on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate; or
 - (2) if the Bank Rate is not published by the Bank of England at close of business on the relevant London Banking Day, the SONIA Reference Rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding London Banking Day on which the SONIA Reference Rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors).
- (C) Notwithstanding the paragraphs above, but subject to Condition 6(b)(iii) (*Benchmark discontinuation*), if the Bank of England publishes guidance as to: (i) how the SONIA Reference Rate is to be determined; or (ii) any rate that is to replace the SONIA Reference Rate, the Agent Bank shall, subject to receiving written instructions from the Issuer and to the extent reasonably practicable, follow such guidance in order to determine SONIA

for the purpose of the Bonds for so long as the SONIA Reference Rate is not available or has not been published by the authorised distributors.

(iii) *Benchmark discontinuation*

(A) *Independent Adviser*

If the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate when any Interest Rate (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 6(b)(iii)(B)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 6(b)(iii)(D)). In making such determinations, the Independent Adviser appointed pursuant to this Condition 6(b)(iii) will act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser will have no liability whatsoever to the Issuer, the Bond Trustee, the Agents, the Bondholders, the Receiptholders or the Couponholders for any determination made by it, pursuant to this Condition 6(b)(iii).

If: (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 6(b)(iii)(A) by no later than 5 Business Days prior to the relevant Interest Determination Date, the Interest Rate applicable to the next succeeding Interest Period shall be equal to the Interest Rate last determined in relation to the Bonds in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Interest Rate shall be the initial Interest Rate. Where a different Margin or Maximum Interest Rate or Minimum Interest Rate is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Interest Rate or Minimum Interest Rate relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Interest Rate relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 6(b)(iii)(A).

(B) *Successor Rate or Alternative Rate*

If the Independent Adviser determines that:

- (1) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Interest rate (or the relevant component part thereof) for all future payments of interest on the Bonds (subject to the operation of this Condition 6(b)(iii)); or
- (2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Interest Rate (or the relevant component part thereof) for all future payments of interest on the Bonds (subject to the operation of this Condition 6(b)(iii)).

(C) *Adjustment Spread*

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(D) *Benchmark Amendments*

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 6(b)(iii) and the Independent Adviser determines: (i) that amendments to these Conditions, the Agency Agreement and/or the Bond Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”); and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 6(b)(iii)(E), without any requirement for the consent or approval of Bondholders or Couponholders, vary these Conditions, the Agency Agreement and/or the Bond Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Bond Trustee, (the Calculation Agent (if applicable)) and the Agent Bank of a certificate signed by two Authorised Signatories of the Issuer pursuant to Condition 6(b)(iii)(E), each of the Bond Trustee, the Calculation Agent (if applicable) and the Agent Bank shall (at the expense of the Issuer), without any requirement for the consent or approval of the Bondholders or Couponholders, be obliged to concur with the Issuer in using its reasonable endeavours to effect any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Bond Trust Deed), and the Bond Trustee, the Calculation Agent (if applicable) and the Agent Bank will not be liable to any party for any consequence thereof; notwithstanding the above, each of the Bond Trustee, the Calculation Agent (if applicable) and the Agent Bank shall not be obliged so to concur if in the opinion of the Bond Trustee, the Calculation Agent (if applicable) or the Agent Bank, as the case may be, doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or protective provisions afforded to it in these Conditions, the Agency Agreement or the Bond Trust Deed (including, for the avoidance of doubt, any supplemental trust deed or supplemental agency agreement) or any other documents to which it is party in any way.

In connection with any such variation in accordance with this Condition 6(b)(iii)(D), the Issuer shall comply with the rules of any stock exchange on which the Bonds are for the time being listed or admitted to trading.

(E) *Notices, etc.*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 6(b)(iii) will be notified by no later than five Business Days prior to the relevant Interest Determination Date by the Issuer to the Bond Trustee, the Calculation Agent, the Agent Bank, the Paying Agents and,

in accordance with Condition 17 (*Notices*), the Bondholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Bond Trustee of the same, the Issuer shall deliver to the Bond Trustee, the Calculation Agent and the Agent Bank a certificate signed by two Authorised Signatories of the Issuer:

- (1) confirming: (i) that a Benchmark Event has occurred; (ii) the Successor Rate or, as the case may be, the Alternative Rate; (iii) the applicable Adjustment Spread; and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 6(b)(iii); and
- (2) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Bond Trustee, the Calculation Agent, the Agent Bank and the Paying Agents shall be entitled to rely on such certificate absolutely (without enquiry or liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Bond Trustee's or the Calculation Agent's or the Agent Bank's or the Paying Agents' ability to rely on such certificate absolutely (without enquiry or liability to any person) as aforesaid) be binding on the Issuer, the Bond Trustee, the Calculation Agent, the Agent Bank, the Paying Agents and the Bondholders.

(F) *Survival of Original Reference Rate*

Without prejudice to the obligations of the Issuer under Condition 6(b)(iii)(A), (B), (C) and (D), the Original Reference Rate and the fallback provisions provided for in Condition 6(b)(ii)(A), (D) and (E) will continue to apply unless and until the Issuer determines that a Benchmark Event has occurred.

(G) *Uncertainty*

Notwithstanding any other provision of this Condition 6(b)(iii), if in the Calculation Agent's or Agent Bank's (as applicable) opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 6(b)(iii), the Calculation Agent or the Agent Bank (as applicable) shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent or the Agent Bank (as applicable) in writing as to which alternative course of action to adopt. If the Calculation Agent or the Agent Bank (as applicable) is not promptly provided with such direction or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent or the Agent Bank (as applicable) shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

(H) *Definitions*

As used in this Condition 6(b)(iii):

“**Adjustment Spread**” means either: (a) a spread (which may be positive, negative or zero); or (b) a formula or methodology for calculating a spread, in each case to be applied

to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (1) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (2) the Independent Adviser determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied); or
- (3) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

“**Alternative Rate**” means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 6(b)(iii)(B) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Relevant Currency as the Bonds;

“**Benchmark Amendments**” has the meaning given to it in Condition 6(b)(iii)(D);

“**Benchmark Event**” means:

- (1) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (2) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (3) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (4) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Bonds; or
- (5) it has become unlawful for any Paying Agent, the Calculation Agent, the Agent Bank or the Issuer or to calculate any payments due to be made to any Bondholder using the Original Reference Rate; or
- (6) a public statement by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative of its relevant underlying market,

provided that in the case of sub-paragraphs (2), (3) and (4) above, the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement;

“**Independent Adviser**” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by, and at the expense of, the Issuer under Condition 6(b)(iii)(A);

“**Original Reference Rate**” means the originally specified benchmark or screen rate (as applicable) used to determine the Interest Rate (or any component part thereof) on the Bonds;

“**Relevant Nominating Body**” means, in respect of a benchmark or screen rate (as applicable):

- (1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (2) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of: (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates; (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); (c) a group of the aforementioned central banks or other supervisory authorities; or (d) the Financial Stability Board or any part thereof;

“**Successor Rate**” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(iv) *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(1) (*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**”) 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 or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents or in the case of Registered Bonds, the Registrar, and, in each case, the Bond Trustee, the Issuer, the Bondholders and the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) as soon as possible after its determination but in no event later than: (i) (in case of notification to the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount; or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest

Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Sub-Class or Tranche of Bonds are for the time being listed or by which they have been admitted to listing and to the Bondholders in accordance with Condition 17 (*Notices*). If the Bonds become due and payable under Condition 11 (*Events of default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition 6(g) 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 and the making of each determination or calculation by the Agent Bank (or the Calculation Agent, if applicable) 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 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 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 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 of wilful default, negligence or fraud) 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 the Calculation Agent, if applicable) 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 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 as an “Additional Business Day Centre(s)”; 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 as an “Additional Business Day Centre(s)”; and

“**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: (i) 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 Issuer, for the purpose of displaying comparable rates) on the Interest Determination Date; or (ii) if that service ceases to display such information, such page as displays such

information on such service (or, if more than one, that one selected 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, means 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: (i) if the Reference Rate is not SONIA, 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); or (ii) if the Reference Rate is SONIA, the day falling five Business Days in London prior to the Interest Payment Date for such Interest Period (in each case 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 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;

“**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;

“**Reference Rate**” means the rate specified as such in the relevant Final Terms;

“**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: (i) the date on which all amounts in respect of the Bonds have been paid; and (ii) 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, 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 T2 is open for the settlement of payments in euro; and

“**T2**” means the real time gross settlement system operated by the Eurosystem, or any successor system.

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;

“**Computation 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 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 (iii) if CPIH is specified in the relevant Final 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 Computation 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:

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

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

"**IFA**" means the Index Figure applicable;

"**IF_{m-3}**" means the Index Figure for the month that is three months prior to the month in which the payment falls due;

"**IF_{m-2}**" means the Index Figure for 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 Computation 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:

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

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

"**IFA**" means the Index Figure applicable;

"**IF_{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;

"**IF_{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 Computation Date means the Index Figure applicable to such date divided by the Base Index Figure;

"**Limited Index Ratio**" means: (i) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (ii) 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 (iii) 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:** (i) 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 (ii) 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 (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 Issuer 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; 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: the Issuer and the Bond Trustee have been notified by the Agent Bank (or the Calculation Agent, if applicable) that (1) 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 (acting solely on the advice of an Indexation Adviser) 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 (acting solely on the advice of the Indexation Adviser) fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i) above, a bank or other person in London shall be appointed by the Issuer and the Bond Trustee (acting solely on the advice of the Indexation Adviser) 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 (acting solely on the advice of an Indexation Adviser) (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 (acting solely on the advice of an Indexation Adviser) 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 (acting solely on the advice of an Indexation Adviser) 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 thereof; “**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 this 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.

- (iv) If “Euro Optional Redemption Price” is specified in the relevant Final Terms or Drawdown Prospectus, the Redemption Amount will be an amount equal to the higher of: (i) the Principal Amount Outstanding of such Bond; and (ii) the sum of the then present values of the remaining scheduled payments of principal and interest discounted to the Optional Redemption Date specified in the applicable Final Terms in respect of EUR on an annual basis (based on the Day Count Fraction specified in the applicable Final Terms) at the Reference Dealer Rate (as defined below) plus any applicable Redemption Margin specified in the applicable Final Terms, in each case as determined by the Calculation Agent, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(iv),

“**Reference Dealers**” means those Reference Dealers selected by the Issuer; and

“**Reference Dealer Rate**” means with respect to the Reference Dealers and the Optional Redemption Date specified in the applicable Final Terms in respect of EUR, the average of the three quotations of the mid-market annual yield to maturity of the Reference Stock specified in the applicable Final Terms or, if the Reference Stock is no longer outstanding, a similar security in the reasonable judgement of the Reference Dealers, at the Determination Time on the Determination Date, each as specified in the applicable Final Terms, quoted in writing to the Calculation Agent and the Bond Trustee by the Reference Dealers (at the request of the Issuer).

(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 the 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), and the Bond Trustee and the Security Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

“**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 Issuer 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 His 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, and the Bond Trustee and the Security Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

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

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

Payments will be subject in all cases to: (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, as amended (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.

(e) *Appointment of the Agents*

The Paying Agents, the Agent Bank, the Transfer Agents and the Registrar (the “**Agents**”) appointed by the Issuer (and their respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Final Terms or Drawdown Prospectus and will be appointed pursuant

to a Calculation Agency Agreement. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, **provided that** the Issuer will at all times maintain: (i) a Principal Paying Agent (in the case of Bearer Bonds); (ii) a Registrar (in the case of Registered Bonds); (iii) an Agent Bank or Calculation Agent (as specified in the relevant Final Terms or Drawdown Prospectus) (in the case of Floating Rate Bonds or Indexed Bonds); 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*).

(f) *Unmatured Coupons and Receipts and Unexchanged Talons*

- (i) Subject to the provisions of the relevant Final Terms or Drawdown Prospectus, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unexpired Coupons attached), unexpired 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 unexpired 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 unexpired Coupons and any unexpired Talon relating to it, a sum equal to the aggregate amount of the missing unexpired Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) *Non-Business Days*

Subject as provided in the relevant Final Terms or Drawdown Prospectus, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day in the holder's location for receipt of funds, 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 T2 is open.

(h) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

10 Taxation

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or, in respect of Wrapped Bonds, the Financial Guarantors) without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer, the Guarantors, any Paying Agent or the Registrar or, where applicable, the Bond Trustee, the Security Trustee or the Financial Guarantor is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, the Guarantors, such Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor will be obliged to make any additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

For the avoidance of doubt, any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 to 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) shall be treated as a withholding required by applicable law.

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 and/or pre-funded 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 or Couponholder 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 and/or pre-funded to its satisfaction against all fees,

costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing.

Neither the Bond Trustee nor the Bondholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, re-organisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Security Agreement and subject to the STID) or other proceeding under any similar law for so long as any Bonds are Outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

13 Prescription

Claims against the Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date) in respect thereof.

14 Replacement of Bonds, Coupons, Receipts and Talons

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced (subject to applicable laws and requirements of the London Stock Exchange), 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 a 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 and/or pre-funded 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 $66\frac{2}{3}$ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or following repayment in full of the Class A Debt, the Class B Debt after, *inter alia*, excluding the proportion of Qualifying Debt in respect of which the Bond Trustee is the DIG Representative and in respect of which the Bond Trustee has not voted. The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take and must certify that, unless such action is taken within the time frame specified in the Emergency Instruction Notice, the interests of the EIN Signatories will be materially prejudiced.

(b) *Meetings of Bondholders*

The Bond Trust Deed contains provisions for convening meetings of the Bondholders (including by video or audio conference call) to consider any matter affecting their interests, including the modification of the Bonds, the Receipts, the Coupons or any of the provisions of the Bond Trust Deed, (in the case of Class A Wrapped Bonds and Class B Wrapped Bonds) the Financial Guarantees and any other Finance Document to which the Bond Trustee is a party (subject to the terms of the STID). Any modification may (except in relation to any Entrenched Right or Reserved Matter of the Bond Trustee (as set out in the STID) subject to the terms of the STID including, in the case of any of the Class A Wrapped Bonds or Class B Wrapped Bonds, to Entrenched Rights or Reserved Matters of any Financial Guarantor (as set out in the STID) and subject to the provisions concerning ratification and/or meetings of particular combinations of Sub-Classes of Bonds as set out in Condition 16(b) (*Exercise of rights by Bond Trustee*) and the Bond Trust Deed), be made if sanctioned by a resolution passed at a meeting of such Bondholders duly convened and held in accordance with the Bond Trust Deed by a majority of not less than three-quarters of the votes cast (an “**Extraordinary Resolution**”) at such meeting. Such a meeting may be convened by the Bond Trustee or the Issuer and shall be convened by the Issuer upon the request in writing of the relevant Bondholders holding not less than one-tenth in nominal amount of the relevant Bonds for the time being Outstanding.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. in nominal amount of the relevant Bonds for the time being Outstanding or, at any adjourned meeting, one or more persons being or representing Bondholders, whatever the nominal amount of the relevant Bonds held or represented, provided however, that certain matters as set out in paragraph 5 of the Fourth Schedule to the Bond Trust Deed (the “**Basic Terms Modifications**”) in respect of the holders of any particular Sub-Class of Bonds may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class of Bonds at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in nominal amount of the Outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Bond Trust Deed will take effect as if

it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(c) *Modification, consent and waiver*

As more fully set out in the Bond Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Sub-Class, concur with the Issuer or any other relevant parties in making: (i) any modification of these Conditions, the Bond Trust Deed, any Financial Guarantee or any Finance Document which is of a formal, minor or technical nature or to correct a manifest error or error which is, in the opinion of the Bond Trustee, proven; 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: (x) 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 or liability to any person); and (y) 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. In addition, the Bond Trustee shall be obliged to concur with the Issuer in using its reasonable endeavours to effect any Benchmark Amendments in the circumstances and as otherwise set out in Condition 6(b)(iii)(D) without the consent or approval of the Bondholders or the Couponholders. 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 is 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.

(e) *Benchmark Amendments*

For the avoidance of doubt, the requirements set out in this Condition 15 do not apply to amendments to the Conditions and/or the Bond Trust Deed that are made pursuant to Condition 6(b)(iii)(D).

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 will 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 is not required to have regard to the interests of the Bondholders in relation to the exercise of such rights, powers, trusts, authorities and discretions and has 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: (i): (a) (in respect of the matters set out in Condition 11 (*Events of default*) and Condition 15(a) (*Decisions of 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 and/or pre-funded 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 Instruction Procedure will bind the Bond Trustee and the Bondholders in all circumstances.

17 Notices

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange, 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 and/or prefunded to its satisfaction. The Bond Trustee or any of its affiliates (as defined in Condition 7 (*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 and/or secured and/or prefunded to its satisfaction.

(c) *Directions, Duties and Liabilities*

Neither the Security Trustee nor the Bond Trustee, in the absence of its own wilful default, 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. The English courts are the most appropriate and convenient courts to settle any such dispute and the Issuer waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with this Bond Trust Deed. To the extent allowed by law, the Bond Trustee, the Bondholders and the Couponholders may take: (i) proceedings in any other court; and (ii) concurrent proceedings in any number of jurisdictions.

(c) Third Party Rights

No person has 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 U.S. 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**”)) (“**TEFRA C**”) or U.S. 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) (“**TEFRA D**”) is applicable in relation to the Bonds, or whether the Bonds are issued other than in compliance with TEFRA C or TEFRA D but in circumstances in which the Bonds will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms or Drawdown Prospectus as a transaction to which TEFRA is not applicable.

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 TEFRA C is applicable or that neither TEFRA C nor TEFRA D is 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 TEFRA D is 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 (i) 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 (ii) 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.
- (c) 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 Receipts, 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, Receipt, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Receipt, 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.

Global Bond 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 Bond 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 (the “**Record Date**”), 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 will 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

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 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**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution 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 Regulation (EU) 2017/1129. 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.

PROHIBITION OF SALES TO UK 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 United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 as amended from time to time (“**EUWA**”); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

[**MiFID II Product Governance / 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 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 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.]

[**UK MiFIR Product Governance / 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 only eligible counterparties as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**UK MiFIR**”); 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 manufacturer[‘s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) 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 213800ESMPQ4RQ7G8351

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

[Title of Bonds]

under the £15,000,000,000 Guaranteed Bond Programme

**PART A
CONTRACTUAL TERMS**

[Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the prospectus dated [] [and the supplemental prospectus dated [●] which [together] constitute[s] a prospectus for the purposes of the UK Prospectus Regulation]. [This document constitutes the Final Terms of the Bonds described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with such prospectus [as so supplemented] in order to obtain all the relevant information]¹. [The prospectus [and the supplemental prospectus] [is] [are] available on the website of the Financial Conduct Authority, trading at London Stock Exchange at: []]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the prospectus dated [24 August 2007/25 July 2008/15 September 2009/15 June 2010/24 June 2011/18 June 2012/11 March 2014/26 June 2015/16 September 2016/10 October 2017/9 October 2018/2 April 2020/2 September 2020/26 October 2021/4 October 2022/[●] 2023] [and the supplemental prospectus dated [●] and incorporated by reference into the prospectus dated []]. [This document constitutes the Final Terms of the Bonds described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with the prospectus dated [●] [and the supplemental prospectus dated [●]], which [together] constitute[s] a prospectus for the purposes of the UK Prospectus Regulation in order to obtain all the relevant information, save in respect of the Conditions which are extracted from the prospectus dated [original date] [and the supplemental prospectus dated [●]]². The prospectuses [and the supplemental prospectuses] [is] [are] available on the website of the Financial Conduct Authority, trading at London Stock Exchange at: []]

- | | | |
|---|----------------------------------|--|
| 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 [●]] |

¹ To be removed in respect of an unlisted issuance.

² To be removed in respect of an unlisted issuance.

- (ii) Net proceeds: [●]
- 6 (i) Specified Denominations: [●]
 [€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Bonds in definitive form will be issued with a denomination above [€199,000].]
- (ii) Calculation Amount [●]
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date (if different from the Issue Date): [●]
- 8 Maturity Date: [●]
- 9 Instalment Date: [Not Applicable/[●]]
- 10 Interest Basis: [[●] per cent. Fixed Rate]
 [[EURIBOR/SONIA] +/-[●] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
- 11 Change of Interest Basis [*Specify the date when any fixed to floating rate change occurs or refer to paragraphs [14] and [15] below and identify there/Not Applicable*]
- 12 Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Instalment]
 [Dual Currency]
- 13 Call Options: [Applicable] / [Not Applicable]
 [Issuer Call Option]
 [Issuer Maturity Call]
 [(further particulars specified below)]
- 14 (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

- 15 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: | [•] |
| 16 Floating Rate Bond Provisions: | [Applicable/Not Applicable] |
| (i) Specified Period(s)/Specified Interest Payment Dates: | [•] |
| (ii) First Interest Payment Date: | [•] |
| (iii) Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable] |
| (iv) Business Centre(s) | [•] |
| (v) Manner in which the Rate(s) of Interest is/are to be determined: | [Screen Rate Determination/ISDA Determination] |
| (vi) Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank): | [Not Applicable/Calculation Agent] |
| (vii) Screen Rate Determination: | [Applicable/Not Applicable] |
| – Specified Duration: | [•] |
| – Relevant Time: | [•] |
| – Relevant Rate: | [EURIBOR] / [Compounded Daily SONIA where “p” is: <i>[specify number]</i> London Business Days [being no less than 5 London Business Days]] |
| (viii) Reference Look-Back Period: | [•] |
| – Interest Determination Date(s): | [•] / [The last London Business Day of the relevant Reference Period / [2 London Business Days] prior to the first day in each Interest Period] |
| – Relevant Screen Page: | [•] |
| – Relevant Fallback Screenpage: | [•] / [see pages of authorised distributors for SONIA Reference Rate as applicable] |
| (ix) ISDA Determination: | [Applicable/Not Applicable] |
| – Floating Rate Option: | [•] |
| – Specified Duration: | [•] |
| – Reset Date: | [•] |
| – [ISDA Definitions] | [2006] |

| | | |
|--------|--|--|
| (x) | Margin(s): | [+/-][●] per cent. per annum |
| | – [Step-Up Fees:] | [●] |
| | – [Step-Up Date:] | [●] |
| (xi) | Minimum Interest Rate: | [[●] per cent. per annum]/[Not Applicable] |
| (xii) | Maximum Interest Rate: | [[●] per cent. per annum]/[Not Applicable] |
| (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)] |
| (xiv) | Relevant Financial Centre: | [●] |
| (xv) | Representative Amount: | [●] |
| 17 | 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)] |
| 18 | Indexed Bond Provisions: | [Applicable/Not Applicable] |
| (i) | Index/Formula: | [RPI/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) | Minimum Indexation Factor: | [Not Applicable/[●]] |
| (ix) | Maximum Indexation Factor: | [Not Applicable/[●]] |
| (x) | Limited Indexation Month(s): | [●] |
| (xi) | Reference Gilt: | [●] |

- (xii) 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)]
- (xiii) Base Index Figure [●]
- 19 (i) Dual Currency Bond Provisions: [Applicable/Not Applicable]
- (ii) Determination Date(s): [●]

PROVISIONS RELATING TO REDEMPTION

- 20 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.
- 21 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] [Euro Optional Redemption Price]
- (iii) Redemption Margin: [[●]/Not Applicable]
- (iv) Reference Gilt: [[●]/Not Applicable]
- (v) Reference Stock: [[●]/Not Applicable]
- (vi) Reference Dealer: [As selected by the Issuer at the relevant time/Not Applicable]
- (vii) Determination Date: [[●]/Not Applicable]
- (viii) Determination Time: [[●]/Not Applicable]
- (ix) If redeemable in part:
- (a) Minimum Redemption Amount: [Not Applicable]
- (b) Maximum Redemption Amount: [Not Applicable]
- (x) Notice period: [Not Applicable]/As set out in the Conditions/[●]
- 22 Final Redemption Amount: [●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE BONDS

- 23 Form of Bonds: [Bearer/Registered]
- (i) If issued in Bearer form: [Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds 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] |
| 24 | Additional Business Day Centre(s): | [[●]/[Not Applicable]. |
| 25 | Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature): | [Yes/No.] |
| 26 | Details relating to Instalment Bonds: | [Not Applicable/Applicable] |
| | (i) Instalment Date: | [●] |
| | (ii) Instalment Amount: | [●] |
| 27 | Redenomination, renominatisation and reconventioning provisions: | [Not Applicable/[●]] |
| 28 | TEFRA rules: | [TEFRA C/TEFRA D/Not Applicable] |

DISTRIBUTION

Method of distribution

[Syndicated/Non-syndicated]

| | | |
|----|---------------------------------------|--|
| 29 | (i) If syndicated, names of Managers: | [Not Applicable/[●]] |
| | (ii) Stabilising Manager (if any): | [Not Applicable/[●]] |
| 30 | If non-syndicated, name of Dealer: | [Not Applicable/[●]] |
| 31 | U.S. Selling Restrictions: | [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA Not Applicable] |

THIRD PARTY INFORMATION

[[●] has been extracted from [●]. [Each of the][The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from the information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly authorised

Signed on behalf of Thames Water Utilities Limited:

By:

Duly authorised

Signed on behalf of Thames Water Utilities Holdings Limited:

By:

Duly authorised

PART B
OTHER INFORMATION

1 Listing

- (i) Listing: [Listed on the Official List of Financial Conduct Authority] [Not Applicable]
- (ii) Admission to trading: [Application has been made for the Bonds to be admitted to trading on the Main Market of the London Stock Exchange with effect from [●].] [Not Applicable]
- (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 UK Limited: [●]]
[Moody's Investors Service Limited: [●]]
[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the ratings provider]

3 [Interests of Natural and Legal Persons involved in the [Issue/Offer]]

[●]

4 Reasons for the offer and estimated net proceeds

- (i) Reasons for the offer: [●]
[*(See "Use of Proceeds" in the Prospectus)*]
[Green Bonds/ Social Bonds/ Sustainability Bonds]
- (ii) Estimated net proceeds: [●]

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 [EURIBOR] rates can be obtained from [Reuters].]

7 [Index-Linked Bonds only – Performance of Index/Formula and Other Information Concerning the Underlying]

- (i) Name of underlying index: [UK Retail Price Index (RPI) (all items) published by the Office for National Statistics] / [any comparable index which may replace the UK Retail Price Index] / [UK Consumer Price Index (CPI) (all items) published by the Office for National Statistics] / [UK Consumer Price Index including owner occupiers' housing costs]

| | |
|--|---|
| | (CPIH) (all items) published by the Office for National Statistics]. |
| (ii) Information about the Index, its volatility and past and future performance can be obtained from: | More information on [RPI/CPI/CPIH/comparable index which may replace RPI/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/CPI/CPIH], can be found at [www.statistics.gov.uk / relevant replacing website / www.ons.gov.uk/economy/inflationandpriceindices] |
| 8 | [Dual currency Bonds only – Performance of Rate[s] of Exchange] |
| | [●] |
| 9 | Operational information |
| ISIN: | [●] |
| Common Code: | [●] |
| Any clearing system(s) other than Euroclear Bank 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 | Green Bonds [Applicable]/[Not Applicable] |
| 11 | Social Bonds [Applicable]/[Not Applicable] |
| 12 | Sustainability Bonds [Applicable]/[Not Applicable] |

CHAPTER 9 USE OF PROCEEDS

Unless otherwise stated in the Final Terms, if in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

Where not otherwise specified in the applicable Final Terms, 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 Structure*".

Green Bonds

Where the applicable Final Terms denote a Series of Bonds as "Green Bonds" ("**Green Bonds**"), the proceeds of the Bonds will be on-lent by the Issuer to TWUL for the financing and/or refinancing of, and/or investment in, the Eligible Green Portfolio (as defined below) falling within the Eligible Green Projects (as defined below).

For the purposes of this Chapter 9:

"**Eligible Green Investments**" means investments which fall within the Eligible Green Projects.

"**Eligible Green Portfolio**" means a portfolio of Eligible Green Projects. Debt financing will only be allocated against projects where spend has occurred within the three financial years prior to the financial year of issuance of the relevant debt, and/or where spend is due to occur within a period of two financial years following the financial year of issuance.

"**Eligible Green Projects**" means projects which meet the Green Eligibility Criteria of the Sustainable Financing Framework (made available at www.thameswater.co.uk).

"**Green Eligibility Criteria**" means the criteria for Eligible Green Projects as set out in the Sustainable Financing Framework.

A third party consultant may review the Eligible Green Projects and issue a report and/or opinion based on the Eligible Green Projects (a "**Green External Review**"). The Green External Review will be made available at www.thameswater.co.uk.

The Issuer and/or TWUL will establish systems and/or processes to monitor and account for the net proceeds for investment in the Eligible Green Portfolio falling within the Eligible Green Projects.

Social Bonds

Where the applicable Final Terms denote a Series of Bonds as "Social Bonds" ("**Social Bonds**"), the proceeds of the Bonds will be on-lent by the Issuer to TWUL for the financing and/or refinancing of, and/or investment in, the Eligible Social Portfolio (as defined below) falling within the Eligible Social Projects (as defined below).

For the purposes of this Chapter 9:

"**Eligible Social Investments**" means investments which fall within the Eligible Social Projects.

"**Eligible Social Portfolio**" means a portfolio of Eligible Social Projects. Debt financing will only be allocated against projects where spend has occurred within the three financial years prior to the financial year of issuance of the relevant debt, and/or where spend is due to occur within a period of two financial years following the financial year of issuance.

"**Eligible Social Projects**" means projects which meets the Social Eligibility Criteria of the Sustainable Financing Framework.

“**Social Eligibility Criteria**” means the criteria for Eligible Social Projects as set out in the Sustainable Financing Framework.

A third party consultant may review the Eligible Social Projects and issue a report and/or opinion based on the Eligible Social Projects (a “**Social External Review**”). The Social External Review will be made available at www.thameswater.co.uk.

The Issuer and/or TWUL will establish systems and/or processes to monitor and account for the net proceeds for investment in the Eligible Social Portfolio falling within the Eligible Social Projects.

Sustainability Bonds

Where the applicable Final Terms denote a Series of Bonds as “Sustainability Bonds” (“**Sustainability Bonds**”), the proceeds of the Bonds will be on-lent by the Issuer to TWUL for the financing and/or refinancing of, and/or investment in, the Eligible Sustainability Portfolio (as defined below) falling within the Eligible Sustainability Projects (as defined below).

For the purposes of this Chapter 9:

“**Eligible Sustainability Portfolio**” means a portfolio of one or more Eligible Sustainability Investments.

“**Eligible Sustainability Investments**” means investments which fall within the Eligible Sustainability Projects.

“**Eligible Sustainability Portfolio**” means a portfolio of Eligible Green Projects and/or Eligible Social Projects. Debt financing will only be allocated against projects where spend has occurred within the three financial years prior to the financial year of issuance of the relevant debt, and/or where spend is due to occur within a period of two financial years following the financial year of issuance.

“**Eligible Sustainability Projects**” means the criteria a project must meet to be included as an Eligible Green Project or an Eligible Social Project under the Sustainable Financing Framework, as applicable.

A third party consultant may review the Eligible Sustainability Projects and issue a report and/or opinion based on the Eligible Sustainability Projects (a “**Sustainability External Review**”, and, together with a Green External Review and a Social External Review each an “**External Review**”). The Sustainability External Review will be made available at www.thameswater.co.uk.

The Issuer and/or TWUL will establish systems and/or processes to monitor and account for the net proceeds for investment in the Eligible Sustainability Portfolio falling within the Eligible Sustainability Projects.

Reporting in relation to Green bonds, Social Bonds, and Sustainability Bonds:

Annually, until the maturity of any Green Bonds, Social Bonds or Sustainability Bonds issued, the Issuer will issue a report (the “**Impact Report**”) on: (i) the Eligible Green Portfolio to which proceeds of Green Bonds have been allocated and the amounts allocated, until the proceeds of the Green Bonds have been reported as having been fully allocated; (ii) the expected impact of the Eligible Green Portfolio; (iii) the Eligible Social Portfolio to which proceeds of Social Bonds have been allocated and the amounts allocated, until the proceeds of the Social Bonds have been reported as having been fully allocated; (iv) the expected impact of the Eligible Social Portfolio; (v) the Eligible Sustainability Portfolio to which proceeds of Sustainability Bonds have been allocated and the amounts allocated, until the proceeds of the Sustainability Bonds have been reported as having been fully allocated; (vi) the expected impact of the Eligible Sustainability Portfolio; and (vii) the balance of unallocated cash and/or cash equivalent investments. Such report will be issued within twelve months of the end of each financial year and as necessary in the event of material developments, and will be subject to an External Review. Should there be any variance in the initial allocation reporting any Green Bonds, Social Bonds or Sustainability Bonds issued, such as divestments, the Issuer will update the Impact Report as soon as

reasonably possible and no later than the end of the financial year following the major allocation change. The Impact Report for the year 2020/21 has been published and is available on the Issuer's website at www.thameswater.co.uk. In addition, the Issuer expects to provide regular information through its website www.thameswater.co.uk on the environmental and/or social outcomes of the Eligible Green Portfolio, Eligible Social Portfolio and the Eligible Sustainability Portfolio.

In connection with the issue of Green Bonds, Social Bonds or Sustainability Bonds under the Programme, the Issuer and TWUL have produced a "**Sustainable Financing Framework**" (as may be updated from time to time) and have obtained an external review (the "**DNV External Review**") on the Sustainable Financing Framework from DNV Business Assurance Services UK Limited ("**DNV**"). Each of the Sustainable Financing Framework and the DNV External Review has been made available by TWUL and the Issuer on TWUL's website (the latest 2021 version of the Sustainable Financing Framework being made available at: <https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/sustainable-finance/sustainable-finance-framework.pdf> and the DNV External Review being made available at: <https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/sustainable-finance/sustainable-financing-framework-assessment.pdf>). For the avoidance of doubt, any External Review, any Impact Report, the DNV External Review and the Sustainable Financing Framework are not incorporated into, and do not form part of, this Prospectus.

CHAPTER 10

TAX CONSIDERATIONS

General

The comments below are of a general nature and are not intended to be exhaustive. Any Bondholders who are in doubt as to their own tax position should consult their professional advisers. In particular, Bondholders should be aware that the tax legislation of any jurisdiction where a Bondholder is resident or otherwise subject to taxation (as well as the jurisdictions discussed below) may have an impact on the tax consequences of an investment in the Bonds including in respect of any income received from the Bonds.

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. This summary as it applies to UK taxation is based upon UK tax 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 (including retrospective change) 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 London Stock Exchange is a “recognised stock exchange” for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List of the Financial Conduct Authority and are admitted to trading on the Main Market of the London Stock Exchange. 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 be paid under deduction of UK income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs under domestic law or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. 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.

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, proposed regulations have been issued that provide that such withholding would not apply to foreign passthru payments prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds. In the event that 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 at 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, which are either established in the EEA and registered under the EU CRA Regulation or established in the United Kingdom and registered under the UK CRA Regulation.

Bank of America, National Association

Bank of America, National Association (“**BANA**”) is the flagship, national, full-service consumer and commercial bank and primary operating subsidiary of Bank of America Corporation. BANA operates across the U.S., its territories, and has active foreign branches in 15 countries. In the U.S., BANA serves approximately 67 million consumer and small business clients. BANA is a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions, and individuals around the world.

Barclays Bank PLC

Barclays Bank PLC (the “**Bank**”, and together with its subsidiary undertakings, the “**Barclays Bank Group**”) is a public limited company registered in England and Wales under number 1026167. The liability of the members of the Bank is limited. 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 or Barclays) is the ultimate holding company of the Group. The Bank’s principal activity is to offer products and services designed for larger corporate, wholesale and international banking clients.

Barclays is a British universal bank, supporting individuals and small businesses through its consumer banking services, and larger businesses and institutions through its corporate and investment banking services. Barclays is diversified by business, geography and income type. The Group's operations include consumer banking and payment services in the UK, U.S. and Europe, as well as a global corporate and investment bank. The Group operates as two divisions – the Barclays UK (Barclays UK) division and the Barclays International (Barclays International) division – which are supported by Barclays Execution Services Limited, the Group-wide service company providing technology, operations and functional services to businesses across the Group. Barclays UK consists of UK Personal Banking, UK Business Banking and Barclaycard Consumer UK businesses. These businesses are carried on by its UK ring-fenced bank, Barclays Bank UK PLC (“**BBUKPLC**”) and certain other entities within the Group. Barclays International consists of Corporate and Investment Bank and Consumer, Cards and Payments businesses. These businesses operate within its non-ring-fenced bank, the Bank and its subsidiaries, and by certain other entities within the Group.

The short term unsecured obligations of the Bank are rated A-1 by S&P Global Ratings UK Limited, P-1 by Moody's Investors Service Ltd. and F1 by Fitch Ratings Limited and the unsecured unsubordinated long term obligations of the Bank are rated A+ by S&P Global Ratings UK Limited, A1 by Moody's Investors Service Ltd. and A+ by Fitch Ratings Limited.

The Bank's credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018, as amended (the UK CRA Regulation) as having been issued by Fitch Ratings Limited (Fitch), Moody's Investors Service Ltd. (Moody's) and S&P Global Ratings UK Limited (S&P), each of which is established in the United Kingdom and has been registered under the UK CRA Regulation. The ratings Fitch, Moody's and S&P have given in relation to the Bank are endorsed by Fitch Ratings Ireland Limited, Moody's Deutschland GmbH and S&P Global Ratings Europe Limited respectively, each of which is established in the European Economic Area (EEA) and registered under Regulation (EU) No 1060/2009 on credit rating agencies (as amended, the EU CRA Regulation).

Based on the Barclays Bank Group's audited financial information for the year ended 31 December 2022, the Barclays Bank Group had total assets of £1,203,537m (December 2021: £1,061,778m), loans and advances at amortised cost of £182,507m (December 2021: £145,259m), total deposits at amortised cost of £291,579m (December 2021: £262,828m), and total equity of £58,953m (December 2021: £56,317m). The profit before tax of the Barclays Bank Group for the year ended 31 December 2022 was £4,867m (December 2021: £5,418m) after credit impairment charges of £933m (December 2021: credit impairment releases of £277m). The financial information in this paragraph is extracted from the audited consolidated financial statements of the Bank for the year ended 31 December 2022, as set out in the 2022 20-F.

Based on the Barclays Bank Group's unaudited financial information for the six months ended 30 June 2023, the Barclays Bank Group had total assets of £1,246,636m (December 2022: £1,203,537m), loans and advances at amortised cost of £183,237m (December 2022: £182,507m), total deposits at amortised cost of £307,820m (December 2022: £291,579m), and total equity of £58,348m (December 2022: £58,953m). The profit before tax of the Barclays Bank Group for the six months ended 30 June 2023 was £3,132m (June 2022: £2,605m) after credit impairment charges of £688m (June 2022: credit impairment charges of £293m). The financial information in this paragraph is extracted from the unaudited condensed consolidated interim financial statements of the Bank for the six months ended 30 June 2023, as set out in the H12023 6-K.

BNP Paribas

BNP Paribas' organisation is based on three operating divisions: Corporate & Institutional Banking (CIB), Commercial, Personal Banking & Services (CPBS) and Investment & Protection Services (IPS).

Corporate and Institutional Banking (CIB) division, combines:

- Global Banking,
- Global Markets,
- and Securities Services.

Commercial, Personal Banking & Services division, covers:

- Commercial & Personal Banking in the euro zone:
 - Commercial & Personal Banking in France (CPBF),
 - BNL banca commerciale (BNL bc), Italian Commercial & Personal Banking,
 - Commercial & Personal Banking in Belgium (CPBB),

- Commercial & Personal Banking in Luxembourg (CPBL);
- Commercial & Personal Banking outside the euro zone, organised around:
 - Europe-Mediterranean, covering Commercial & Personal Banking outside the euro zone, in particular in Central and Eastern Europe, Turkey and Africa
- Specialised businesses:
 - BNP Paribas Personal Finance,
 - Arval and BNP Paribas Leasing Solutions,
 - New Digital Businesses (in particular Nickel, Floa, Lyf) and BNP Paribas Personal Investors.

Investment & Protection Services division, combines:

- Insurance (BNP Paribas Cardif),
- Wealth and Asset Management: BNP Paribas Asset Management, BNP Paribas Real Estate, BNP Paribas Principal Investments (management of the BNP Paribas Group's portfolio of unlisted and listed industrial and commercial investments) and BNP Paribas Wealth Management.

BNP Paribas SA is the Parent Company of the BNP Paribas Group.

As at 30 June 2023, the BNP Paribas Group had consolidated assets of €2,671 billion (compared to €2,664 billion³ at 31 December 2022), consolidated loans and receivables due from customers of €853 billion (compared to €857 billion³ at 31 December 2022), consolidated items due to customers of €978 billion (compared to €1,008 billion³ at 31 December 2022) and shareholders' equity (Group share) of € 123 billion (compared to €121 billion³ at 31 December 2022).

As at 30 June 2023, pre-tax income was €6.4 billion (compared to €6.8 billion⁴ as at 30 June 2022). For the first half 2023, net income, attributable to equity holders was €7.2 billion (compared to €4.9 billion⁴ for the first half 2022).

At the date of this Prospectus, the BNP Paribas Group currently has Long Term Senior Preferred debt ratings of "A+" with stable outlook from S&P, "Aa3" with stable outlook from Moody's Investors Service, Inc. and "AA-" with stable outlook from Fitch Ratings, Ltd and "AA (low)" with stable outlook from DBRS.

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.

³ Restated according to IFRS 17 and 9

⁴ As a reminder: on 2 May 2023, BNP Paribas reported restated quarterly series for 2022 to reflect for each quarter: (i) the application of IFRS 5 relating to disposal groups of assets and liabilities held for sale, following the sale of Bank of the West on 1 February 2023; (ii) the application of IFRS 17 (Insurance Contracts) and the application of IFRS 9 for insurance entities, effective 1 January 2023; (iii) the application of IAS 29 (Financial Reporting in Hyperinflationary Economies) to Türkiye, effective 1 January 2022; and (iv) the internal transfers of activities and results at Global Markets and Commercial & Personal Banking in Belgium.

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

Citibank

Name: Citibank, N.A., London Branch

Address: Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England

Country of incorporation: United States

Nature of business:

Citibank, N.A. is a national banking association organised under the National Bank Act of 1864 of the United States with charter no: 1461. Citibank, N.A. is an indirect wholly-owned subsidiary of Citigroup Inc. which is a Delaware corporation and a financial holding company under the U.S. Bank Holding Company Act of 1956. Citibank, N.A. has its main office at 5800 S. Corporate Place, Sioux Falls, South Dakota 57108, and its principal place of business at 388 Greenwich Street, New York, New York, 10013 United States of America, and its main telephone number is 212-559-1000.

Citibank, N.A. was registered in the United Kingdom as a foreign company in June 1920 and subsequently registered in July 1993 as having established a branch in England and Wales. The principal office of Citibank, N.A., London Branch is located at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England (Telephone: +44 20 7500 5000). Citibank, N.A. is authorised by the Prudential Regulation Authority (the “PRA”) and subject to regulation by the Financial Conduct Authority and limited regulation by the PRA as a fully authorised commercial banking institution offering a wide range of corporate banking products conducted from its UK office.

Citibank, N.A. is regulated and supervised by the Office of the Comptroller of the Currency (the “OCC”). The Federal Deposit Insurance Corporation (the “FDIC”) also has examination authority over Citibank, N.A.. Overseas branches of Citibank, N.A. are regulated and supervised by the Board of Governors of the Federal Reserve System (the “FRB”) and OCC and overseas subsidiary banks by the FRB. These overseas branches and subsidiary banks are also regulated and supervised by regulatory authorities in the host countries.

Admission to trading of securities:

Citibank, N.A., London Branch, does not have securities admitted to trading on a regulated market or equivalent third country market or SME Growth Market for the purposes of the Prospectus Regulation

Commonwealth Bank of Australia

Commonwealth Bank of Australia (“CBA”) is a public company with an ordinary share capital of A\$36,949 million at 31 December 2021. The Bank is governed by, and operates in accordance with, its Constitution, the Corporations Act and 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 objectives of CBA include providing integrated financial services including retail, premium, business and institutional banking, superannuation, insurance and sharebroking products and services. CBA was incorporated as a public company on 17 April 1991 in the Australian Capital Territory and has Australian Business Number 48 123 123 124. Its registered office is Commonwealth Bank Place South, Level 1, 11 Harbour Street, Sydney, New South Wales, Australia, 2000.

CBA and its subsidiaries together provide a wide range of banking, financial and related services in Australia and New Zealand, while branches in the United Kingdom, United States and Asia along with a subsidiary in

the Netherlands provide specialist products to institutional clients. As at 30 June 2023, CBA and its consolidated subsidiaries had total assets of A\$1,252,845 million, deposits and other public borrowings of A\$864,995 million. Net profit after income tax including discontinued operations (statutory basis), for the year ending 30 June 2023, was A\$10,188 million.

CBA's long term senior unsecured and unguaranteed obligations are externally rated, as at 30 June 2023 ratings were Aa3 by Moody's, AA- by Standard and Poor's and A+ by Fitch.

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 at 31 March 2023, Deutsche Bank's subscribed capital amounted to €5,223,021,975.04 consisting of 2,040,242,959 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 and regulated by the European Central Bank and the German Federal Financial Supervisory Authority (BaFin). With respect to activities undertaken in the UK, Deutsche Bank is authorised by the Prudential Regulation Authority. It is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of Deutsche Bank AG's authorisation and regulation by the Prudential Regulation Authority are available from Deutsche Bank on request.

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.

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 company limited by shares in 1880. In 1923, the company adopted the name Midland Bank Limited, which it held until 1982 when it re-registered as a public limited company 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.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. As at the date of this Prospectus, the HSBC Group serves customers worldwide across 62 countries and territories. With total assets of \$2,966,530 million at 31 December 2022, HSBC is one of the world's largest banking and financial services organisations.

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 A1 by Moody's and A+ 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 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 public limited company incorporated and domiciled in England and Wales and registered with Companies House with company number 02711006 and with its registered office at 25 Bank Street, Canary Wharf, London. J.P. Morgan Securities plc is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA in the United Kingdom.

Lloyds Bank Corporate Markets plc

Lloyds Bank Corporate Markets plc ("**Lloyds Bank Corporate Markets**") (LEI 213800MBWEIJDM5CU638) 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 PRA and regulated by the Financial Conduct Authority and the PRA. Lloyds Bank Corporate Markets' 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 took 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 provides a range of banking and financial services through its UK and overseas branches and offices, with operations in the UK, the Crown Dependencies, the United States, and Germany. These products and services form an integral part of the client service proposition of the Lloyds Banking Group.

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 a public company incorporated with limited liability under the laws of England and Wales whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA, United Kingdom. Morgan Stanley & Co. International plc is an indirect wholly owned subsidiary of Morgan Stanley. Morgan Stanley & Co. International plc is a UK registered broker-dealer. The principal activity of Morgan Stanley & Co. International plc is the provision of financial services to corporations, governments and financial

institutions across a global client base. It is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the PRA and Financial Conduct Authority.

MUFG Securities EMEA plc

MUFG Securities EMEA plc (“**MUS(EMEA)**”) was incorporated in England and Wales on 11 February, 1983, as a company with liability limited by shares. MUS(EMEA) was later re-registered as a public limited company. MUS(EMEA)’s registered office is located at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AJ. MUS(EMEA)’s company 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). MUSHD 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 (ABN: 12 004 044 937) (“**NAB**”) is a public limited company incorporated in the Commonwealth of Australia and operates under Australian legislation including the Corporations Act 2001 of Australia. Its registered office is Level 28, 395 Bourke Street, Melbourne, Victoria 3000, Australia.

NAB is the holding company for the NAB Group (comprising NAB and its controlled entities), as well as being the main operating company. As at 31 March 2023, the NAB Group had total assets of A\$1,048,288 million and total equity of A\$61,415 million.

The NAB Group is a financial services organisation with more than 36,000 colleagues, operating through 680 branches and business banking centres (as at 31 March 2023), with more than 595,000 shareholders and serving more than 10 million customers (as at 30 September 2022). The majority of the NAB Group’s businesses operate in Australia and New Zealand, with additional operations located in Asia, Europe and the United States. The principal activities of the NAB Group during the year ended 30 September 2022 were banking services, credit and access card facilities, leasing, housing and general finance, international, investment and private banking and wealth management services, funds management and custodian, trustee and nominee services.

Further information on NAB and the NAB Group, including its consolidated audited financial statements and accompanying notes thereto, may be accessed through www.nab.com.au/financialresults.

The short term senior unsecured and unguaranteed obligations of NAB are rated Prime-1 by Moody’s, A-1+ by Standard & Poor’s and F1 by Fitch and the long term senior unsecured and unguaranteed obligations of NAB are rated Aa3 by Moody’s, AA- by Standard & Poor’s and A+ by Fitch.

The information in the preceding five paragraphs is valid solely as at 29 September 2023 and has been provided solely for use in this Prospectus. Except for the preceding five paragraphs, NAB and the NAB Group accept no responsibility for this Prospectus.

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, H3B 3A9, Canada. Royal Bank is the ultimate parent company of RBC Europe Limited.

Royal Bank is a global financial institution with a purpose-driven, principles-led approach to delivering leading performance. Royal Bank’s success comes from the 97,000+ employees who leverage their imaginations and insights to bring Royal Bank’s vision, values and strategy to life so Royal Bank can help its clients thrive and communities prosper. As Canada’s biggest bank, and one of the largest in the world based on market capitalization, Royal Bank has a diversified business model with a focus on innovation and providing exceptional experiences to its 17 million clients in Canada, the U.S. and 27 other countries.

Royal Bank had, on a consolidated basis, as at July 31, 2023, total assets of C\$1,957.7 billion (approximately US\$1,484.0 billion⁵), equity attributable to shareholders of C\$112.3 billion (approximately US\$85.1 billion⁵) and total deposits of C\$1,215.6 billion (approximately US\$921.4 billion⁵). 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, 2023.

The senior long-term debt⁶ of Royal Bank has been assigned ratings of A (stable outlook) by S&P Global Ratings, A1 (stable outlook) by Moody’s Investors Service and AA- (stable outlook) by Fitch Ratings. The legacy senior long-term debt⁷ of Royal Bank has been assigned ratings of AA- by S&P Global Ratings, Aa1 by Moody’s Investors Service and AA by Fitch Ratings. Royal Bank’s common shares are listed on the Toronto Stock Exchange and the New York Stock 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 prospectus is delivered. Requests for such copies should be directed to Investor Relations, Royal Bank of Canada, by writing to 200 Bay Street, South Tower, Toronto, Ontario, M5J 2J5, Canada, or by calling 416-842-2000, or by visiting rbc.com/investorrelations⁸.

The delivery of this Prospectus 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.

Banco Santander, S.A.

Banco Santander, S.A., London Branch is a branch of Banco Santander, S.A. with its principal place of business located at 2 Triton Square, Regent’s Place, London, NW1 3AN. It is authorised by the Bank of Spain

⁵ As at July 31, 2023: C\$1.00 = US\$0.758

⁶ Includes senior long-term debt issued on or after September 23, 2018 which is subject to conversion under the Canadian Bank Recapitalization (Bail-in) regime.

⁷ Includes senior long-term debt issued prior to September 23, 2018 and senior long-term debt issued on or after September 23, 2018 which is excluded from the Bail-in regime.

⁸ This website URL is an inactive textual reference only, and none of the information on the website is incorporated in this Prospectus.

(“**BoS**”) and subject to regulatory oversight on certain matters by the Financial Conduct Authority (“**FCA**”) and the Prudential Regulation Authority (“**PRA**”).

Banco Santander, S.A. is the parent company of Grupo Santander (“**Santander**”). It was established on 21 March 1857 and incorporated in its present form by a public deed executed in the city of Santander, Spain, on 14 January 1875. Banco Santander, S.A. and its consolidated subsidiaries are a financial group operating through a network of offices and subsidiaries across Spain, the United Kingdom and other European countries, Brazil and other Latin American countries and the US, offering a wide range of financial products.

In Latin America, Santander has majority shareholdings in banks in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay. At 31 December 2022, Santander had a market capitalization of €47.1 billion, stockholders’ equity of €89.986 billion and total assets of €1,734.6 billion. Santander had €1,146.1 billion total customer funds at that date. As of 31 December 2022, Santander had 65,581 employees and 3,148 branch offices in Europe (of which 26,839 employees and 1,913 branches in Spain and 21,185 employees and 449 branches in the United Kingdom), 44,518 employees and 1,854 branches in North America, 78,271 employees and 3,653 branches in South America (of which 55,993 employees and 2,847 branches in Brazil), 16,193 employees and 364 branches in Digital Consumer Bank and 1,899 employees in Corporate Activities.

Banco Santander, S.A. has a long- term credit rating of “A-” by Fitch, “A+” by Standard & Poor’s, “A2” by Moody’s and “A (high)” by DBRS.

Skandinaviska Enskilda Banken AB (SEB)

Skandinaviska Enskilda Banken AB (publ) (“**SEB**”) of Kungsträdgårdsgatan 8, 106 40 Stockholm, Sweden, was incorporated under the laws of Sweden on 29th December, 1971 through the amalgamation of Stockholm’s Enskilda Bank and Skandinaviska Banken as a limited liability company with registration number 502032-9081.

SEB is a leading Nordic financial services group. As a relationship bank strongly committed to delivering customer value, SEB offers financial advice and a wide range of financial services to corporate customers, financial institutions and private individuals in Sweden and the Baltic countries. In Norway, Denmark, Finland, Germany and the UK, SEB’s operations focus on delivering a full-service offering to corporate and institutional clients and building long-term customer relationships.

SEB has been rated A+ by S&P Global Ratings Europe Limited (S&P), Aa3 by Moody’s Investors Service (Nordics) AB (Moody’s) and AA- by Fitch Ratings Limited (Fitch). Each of S&P and Moody’s is established in the EEA, and Fitch is established in the United Kingdom (UK).

SMBC Nikko Capital Markets Limited (“SMBC Nikko”)

SMBC Nikko is an IFPRU investment firm, authorised and regulated by the Financial Conduct Authority and incorporated in England and Wales. It is a subsidiary of Sumitomo Mitsui Banking Corporation, one of the world’s largest commercial banks with ¥252 trillion in consolidated total assets as of 31 March 2023, and SMBC Nikko Securities Inc. Both are wholly owned subsidiaries of Sumitomo Mitsui Financial Group, Inc. (“**SMFG**”), a Tokyo-based holding company which is one of Japan’s largest financial institutions. Through its subsidiaries and affiliates, SMFG offers a diverse range of financial services, including commercial banking, leasing, securities, credit card, consumer finance and other services.

SMBC Nikko and its subsidiaries are organised into the following two units: (i) Global Markets comprising Derivatives, Fixed Income and Equity trading departments and (ii) Capital Markets and Advisory comprising Debt and Equity Capital Markets and Mergers & Acquisitions.

Société Générale

Société Générale, one of Europe's leading financial services groups and a major player in the economy for over 150 years, supports 25 million clients every day with more than 117,000 staff in 66 countries.

Société Générale draws on its European roots to develop its business internationally. Société Générale's unique geographic positioning enables it to connect Europe and Africa with major global financial centres in Asia and the Americas.

The Société Générale Group combines financial strength, proven expertise in innovation and a sustainable growth strategy with the objective of creating value for all its stakeholders. Société Générale seeks to be a trusted partner in the projects of those building tomorrow's world today.

This commitment guides Société Générale's mission: to protect and manage assets and savings, finance projects, protect clients in their both their day-to-day lives and in their professional activities, ensure secure transactions and offer the best technological solutions.

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 40 Temperance Street, Toronto, Ontario Canada M5H 0B4. A copy of The Bank of Nova Scotia's by-laws is available on www.sedar.com.

The Bank of Nova Scotia is a leading bank in the Americas. Guided by its purpose: "for every future", The Bank of Nova Scotia helps its customers, their families and their communities achieve success 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 over 90,000 employees and assets of approximately \$1.4 trillion (as at July 31, 2023), The Bank of Nova Scotia trades on the Toronto (TSX: BNS) and New York Stock Exchanges (NYSE: BNS).

The Toronto-Dominion Bank

Headquartered in Toronto, Canada, with approximately 90,000 employees in offices around the world, the Toronto-Dominion Bank and its subsidiaries are collectively known as TD Bank Group (TD). TD offers a full range of financial products and services to over 27 million customers worldwide through three key business lines:

- **Canadian Retail** including TD Canada Trust, Business Banking, TD Auto Finance (Canada), TD Wealth (Canada), TD Direct Investing and TD Insurance;
- **U.S. Retail** including TD Bank, America's Most Convenient Bank, TD Auto Finance (U.S.), TD Wealth (U.S.) and TD's investment in Schwab;
- **Wholesale Banking** including TD Securities

TD had CDN\$1.9 trillion in assets on October 31, 2022. TD also ranks among the world's leading online financial services firms, with more than 15 million active online and mobile customers. The Toronto-Dominion Bank trades on the Toronto and New York stock exchanges under the symbol "TD".

The Toronto-Dominion Bank is a chartered bank subject to the provisions of the Bank Act (Canada). It was formed on February 1, 1955 through the amalgamation of The Bank of Toronto, chartered in 1855, and The Dominion Bank, chartered in 1869.

CHAPTER 12 SUBSCRIPTION AND SALE

Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of Bank of China Limited, London Branch, The Bank of Nova Scotia, London Branch, Barclays Bank PLC, BNP Paribas, HSBC Bank plc, Lloyds Bank Corporate Markets plc, ICBC Standard Bank 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, Banco Santander, S.A., Skandinaviska Enskilda Banken AB (publ), SMBC Nikko Capital Markets Limited, The Toronto-Dominion Bank 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 Obligors 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, the Guarantors and their respective 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, the Guarantors and their respective affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. Certain of the Dealers may from time to time also enter into swap and other derivative transactions with the Issuer and/or the Guarantors and their respective affiliates.

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 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 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 the Guarantees in respect thereof have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and 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 except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act and, in all cases, in accordance with any applicable state or local securities laws. Terms used in this paragraph have the meaning given to them in Regulation S. The Bonds and the Guarantees in respect thereof are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

Bearer Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 as amended (the “Code”) and U.S. Treasury regulations promulgated thereunder.

Each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to agree, that, except as permitted by the Dealership Agreement, it has not offered or sold or, in the case of Bearer Bonds, delivered the Bonds and the Guarantees in respect thereof, and agrees that it will not offer, sell or, in the case of Bearer Bonds, deliver the Bonds and the Guarantees in respect thereof: (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) only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any “directed selling efforts” with respect to the Bonds and the Guarantees in respect thereof, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer agrees that, at or prior to confirmation of sale of Bonds and the Guarantees in respect thereof, it will have sent to each dealer 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 and the Guarantees in respect thereof during the distribution compliance period a confirmation or other notice to substantially the following effect: “The securities and the guarantees covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (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 (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), except in either case in accordance with Regulation S under the Securities Act and all applicable state or local securities laws. Terms used above have the meanings given to them by Regulation S under the Securities Act.”.

In addition, until 40 days after the commencement of the offering of Bonds comprising any Sub-Class and the Guarantees in respect thereof, any offer or sale of such Bonds and the Guarantees in respect thereof within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Bearer Bonds will be issued in accordance with U.S. 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 Code) (“TEFRA C”) or U.S. 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) (“TEFRA D”), as specified in the relevant Final Terms or Drawdown Prospectus relating to one or more Sub-Classes of Bearer Bonds.

- (a) In relation to each Sub-Class of Bearer Bonds issued in accordance with TEFRA D, each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to agree, that:
- (i) except to the extent permitted under TEFRA D, (A) it has not offered or sold, and during a 40-day restricted period shall not offer or sell, Bearer Bonds to a person who is within the United States or its possessions or to a United States person; and (B) it has not delivered and shall not deliver within the United States or its possessions definitive Bearer Bonds that are sold during the restricted period;
 - (ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Bonds are aware that such Bonds may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;
 - (iii) if such Dealer is a United States person, it represents that it is acquiring the Bearer Bonds for purposes of resale in connection with their original issuance and if it retains Bearer Bonds for its own account, it shall only do so in accordance with the requirements of U.S. Treasury Regulation § 1.163-5(c)(2)(i)(D)(6) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code);
 - (iv) with respect to each affiliate that acquires from such Dealer Bearer Bonds for the purpose of offering or selling such Bonds during the restricted period, each Dealer either (A) repeats and confirms the representations contained in clauses (i), (ii) and (iii) on behalf of such affiliate or (ii) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in clauses (i), (ii) and (iii); and
 - (v) it will obtain for the benefit of the Issuer the representations and agreements contained in clauses (i), (ii), (iii), (iv) and this clause (v) from any person other than its affiliates with whom it enters into a written contract, as defined in U.S. Treasury Regulation § 1.163-5(c)(2)(i)(D)(4) (or any successor rules in substantially the same form for the purposes of section 4701 of the Code), for the offer or sale during the restricted period of Bearer Bonds.

Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including TEFRA D.

- (b) In relation to each Sub-Class of Bearer Bonds issued in accordance with TEFRA C, each Dealer acknowledges and agrees, and each further Dealer appointed under the Programme will be required to acknowledge and agree that such Bonds must be issued and delivered outside the United States and its possessions in connection with their original issuance and represents and agrees that:
- (i) it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Bearer Bonds within the United States or its possessions in connection with their original issuance; and
 - (ii) in connection with the original issuance of Bearer Bonds, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or the Dealer is within the United States or its possessions and shall not otherwise involve its U.S. office in the offer or sale of Bearer Bonds.

Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including TEFRA C.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States to non-U.S. persons in reliance on Regulation S. 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 and the Guarantees in respect thereof outside the United States pursuant to Regulation S and each subsequent purchaser of such Bonds and the Guarantees in respect thereof in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Bonds and the Guarantees in respect thereof, will be deemed to have represented, agreed and acknowledged that:

- (a) It is, or at the time the Bonds and the Guarantees in respect thereof are purchased will be, the beneficial owner of such Bonds and the Guarantees in respect thereof; 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 in respect thereof 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, deliver or otherwise transfer such Bonds and the Guarantees in respect thereof except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, and in each case in accordance with any applicable securities laws of any state or other jurisdiction 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 HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (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, DELIVERED OR OTHERWISE TRANSFERRED, 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 PURSUANT TO A TRANSACTION EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS 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.

Prohibition of Sales to EEA Retail Investors

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 (EU) 2016/97 (the “**Insurance Distribution 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 Regulation (EU) 2017/1129 as amended from time to time; 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 for the Bonds.

Prohibition of Sales to UK Retail Investors

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 to any retail investor in the United Kingdom. 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
 - (iii) not qualified investor as defined in Article 2 of the UK Prospectus Regulation; and
- (b) the expression an “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 for 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 this Prospectus by the FCA in accordance with the UK Prospectus Regulation for the Bonds to be admitted to listing on the Official List and to trading on the Main 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 this 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 this 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 9 July 2023.

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 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 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 12 October 2023.

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 and, in the case of items (a) and (l) only, at the Issuer's website at www.thameswater.com:

- (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 2022 and the year ended 31 March 2023;
- (c) the audited financial statements for the Issuer for the year ended 31 March 2022 and the year ended 31 March 2023;
- (d) the audited financial statements for TWH for the year ended 31 March 2022 and the year ended 31 March 2023;
- (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, the base prospectus dated 10 October 2017, the base prospectus dated 9 October 2018, the base prospectus dated 2 April 2020, the supplementary prospectus dated 5 June 2020, the base prospectus dated 2 September 2020, the supplementary prospectus dated 22 January 2021, the base prospectus dated 26 October 2021, the supplementary prospectus dated 12 January 2022 and the base prospectus dated 4 October 2022 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
- (iii) the Bond Trust Deed and the Deed of Variation to the Bond Trust Deed dated 31 August 2018.

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 €100,000 (or equivalent) since 31 December 2010. If the Issuer considers such obligation to be unduly burdensome, the Issuer may decide to seek an alternative listing of the Bonds on an exchange-regulated market or on a stock exchange outside the EU.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Sub-Class of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms or Drawdown Prospectus. If the Bonds are to clear through an additional or alternative clearing system (including Sicovam) the appropriate information will be specified in the applicable Final Terms or Drawdown Prospectus.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms or Drawdown Prospectus.

Significant or Material Change

There has been no significant change in the financial performance or financial position of each of the TWU Financing Group, the Issuer, TWUL or TWH and its subsidiaries since 31 March 2023. There has been no material adverse change in the financial position or prospects of each of the Issuer, TWUL or TWH since the date of its last published audited financial statements which were for the period ended 31 March 2023.

Litigation

Save as disclosed in the section titled “*Litigation*” in Chapter 5 (*Description of the TWU Financing Group*), 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.

Save as disclosed in the section titled “*Litigation*” in Chapter 5 (*Description of the TWU Financing Group*), 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.

Save as disclosed in the section titled “*Litigation*” in Chapter 5 (*Description of the TWU Financing Group*), 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 at 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 at 30 September 2021 and 30 September 2022 (which were subject to a review by the auditors in accordance with the International Standard on Review Engagements and are available at <https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/thames-water-utilities/thames-water-utilities-finance/reports/interim-report-2022-23.pdf>, but are not incorporated into this Prospectus) and intends to publish unaudited interim financial statements as at 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 years ended 31 March 2022 and 31 March 2023 are PricewaterhouseCoopers LLP (“**PwC**”), of 3 Forbury Place, 23 Forbury Road, Reading, Berkshire, RG1 3JH which is a member firm of the Institute of Chartered Accountants in England and Wales. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The audited financial statements of TWUL and the Issuer as at and for the year ended 31 March 2022 and 31 March 2023 have been prepared under International Financial Reporting Standards (“**IFRS**”) as adopted by the UK Endorsement Board.

This change does not constitute a change in accounting policy but rather a change in the framework which is required to ground the use of the IFRS in the company law. The change in the framework, does not result in any impact on the recognition, measurement or disclosures.

The financial statements of TWH for the year ended 31 March 2022 and 31 March 2023 have been prepared in accordance with FRS 101. In each case, in respect of the 2022 financial statements and the 2023 financial statements, PwC have given unmodified reports which contained no statement under Section 498(2) or (3) of the Companies Act 2006. In TWH’s 2023 financial statements, the auditors noted that in forming their opinion on the financial statements (which is not modified), they considered that TWH relies on support from KWHL (its ultimate parent company) and that, as at the date of approval of the financial statements, there is a material uncertainty relating to going concern at KWHL as there are uncertainties disclosed in its accounts. This in turn creates a material uncertainty at TWH as it creates a material uncertainty as to whether KWHL would be able to extend the support committed if and when required. In the auditors’ view, these conditions, along with the other matters explained in note accounting policies to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Notwithstanding the above, the auditors concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Furthermore, TWH is not reliant on support from KWHL given TWH's liabilities are limited to those of guaranteeing TWUL and the Issuer (which are supported by the credit strength of TWUL as the operating entity, as disclosed in this Prospectus).

The audited financial statements of each of the Issuer, TWUL and TWH for the year ending 31 March 2022 and 31 March 2023 have been delivered to the Registrar of Companies. Financial statements for 31 March 2022 and 31 March 2023 are available on the Thames Water website.

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.

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 respective 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, the Guarantors and their respective affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. Certain of the Dealers may from time to time also enter into swap and other derivative transactions with the Issuer and/or the Guarantors and their respective affiliates.

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 Guarantor's 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 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.

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 26 June 2020. 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:

“2014 Final Determination” means the final price determination made by Ofwat in respect of AMP6.

“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 Business Day Centre**” means an additional centre to be included in the definition of Business Days, as specified in the Final Terms or Drawdown Prospectus.

“**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.

“**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.

“**AMP8**” means the asset management plan to be prepared for the five-year period commencing on 1 April 2025 or, where the context permits, this five-year period commencing on 1 April 2025.

“**AMP9**” means the asset management plan to be prepared for the five-year period commencing on 1 April 2030 or, where the context permits, this five-year period commencing on 1 April 2030.

“**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,
- (c) and in each case, any Affiliate of such person.

“**Auditors**” means PricewaterhouseCoopers 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 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 Currency**” means pounds sterling.

“**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.

“**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 Centre**” means a business centre, as specified in the Final Terms of a Floating Rate Bond, required to be open at the end date of a Specified Period.

“**Business Day**” means (other than in any Hedging Agreement, where “**Business Day**” has the meaning given to it in that Hedging Agreement):

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms;
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the currency in which such financial indebtedness is denominated (which in the case of a payment in US dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms; and
- (c) in relation to the definition of Lease Calculation Date, a day on which commercial banks and foreign exchange markets settle payments generally in London.

“**Calculation Agency Agreement**” means, in relation to the Bonds of any Tranche, an agreement in or substantially in the form of Schedule 1 (*Form of Calculation Agency Agreement*) to the Agency Agreement.

“**Calculation Agent**” means, in relation to any Tranche of Bonds, the person appointed as calculation agent in relation to such Tranche of Bonds by the Issuer pursuant to the provisions of a Calculation Agency Agreement (or any other agreement) and shall include any successor calculation agent appointed in respect of such Tranche of Bonds.

“**Calculation Date**” means (other than in any Hedging Agreement where “Calculation Date” has the meaning given to it in that Hedging Agreement), 31 March and 30 September in each year starting on 30 September 2007 or any other calculation date agreed as a result of a change in the financial year end date of any Obligor.

“**Capex Contract**” means any agreement pursuant to which TWUL outsources goods and services which are Capital Expenditure.

“**Capital Expenditure**” means Capital Maintenance Expenditure and any expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the TWUL Business Financial Model) relating to the acquisition of equipment, fixed assets, real property, intangible assets and other assets of a capital nature, or for the replacements or substitutions therefor or additions or improvements thereto, that in any such case have a useful life of more than one year together with costs incurred in connection therewith and provided that such expenditure is incurred in respect of maintenance and non-infrastructure, infrastructure renewals expenditure or quality and supply-demand and other service enhancement expenditure.

“**Capital Expenditure Facility**” means the revolving facility made available on the Initial Issue Date 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.

“**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.

“**Chargors**” means the Restricted Chargors and the Unrestricted Chargors, and a “**Chargor**” means any of them.

“**Class**” means: (i) in relation to the Bonds, each class of Bonds, the available Classes of Bonds being Class A Wrapped Bonds, Class A Unwrapped Bonds, Class B Wrapped Bonds and Class B Unwrapped Bonds; and (ii)

in relation to the Secured TWUF Bonds, each class of Secured TWUF Bonds listed in the definition of “**Secured TWUF Bonds**”.

“**Class A Adjusted ICR**” means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest during such Test Period.

“**Class A Average Adjusted ICR**” means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

“**Class A Bonds**” means the Class A Wrapped Bonds and the Class A Unwrapped Bonds.

“**Class A Debt**” means any financial accommodation that is for the purposes of the STID to be treated as Class A Debt and includes:

- (a) as at the Initial Issue Date all debt outstanding under:
 - (i) the Class A Unwrapped Bonds (including any Class A FG Covered Bonds) issued by TWUCFL on the Initial Issue Date;
 - (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 TWUCFL 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 a FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds) and each Sub-Class of Class A Unwrapped Bonds (excluding any Class A FG Covered Bonds (unless a Default Situation is subsisting)), the Bond Trustee;
- (c) in respect of the Secured TWUF Bonds (excluding any Secured TWUF FG Covered Bonds (unless a Default Situation is subsisting)), the relevant TWUF Bond Trustee;
- (d) in respect of each Class A FG Covered Bond and each Secured TWUF FG Covered Bond, the Secondary Market Guarantor in respect of such Class A FG Covered Bond or, as the case may be, Secured TWUF FG Covered Bond (unless a Default Situation is subsisting);
- (e) in respect of the Initial Credit Facility, the Initial Credit Facility Agent;
- (f) in respect of the Existing Authorised Credit Facilities, the Existing Authorised Credit Provider;
- (g) in respect of any Existing Finance Leases, the relevant Finance Lessor; and
- (h) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (g) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank pari passu with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum as the Class A DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

“Class A Debt Interest” means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

- (a) all interest and recurring fees or commissions paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer’s and/or 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 DSR Liquidity Facility**” means a DSR Liquidity Facility constituting Class A Debt made available under a DSR Liquidity Facility Agreement.

“**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 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 a 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 DSR Liquidity Facilities**” means a DSR Liquidity Facility constituting Class B Debt made available under a DSR Liquidity Facility Agreement.

“**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 26 June 2020.

“**Companies Act**” has 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.

“**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; and (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),

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 Obligor.

“**CRD V**” means the Directive 2019/878/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.

“**CSO**” means combined sewerage overflows.

“**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 Bank of China Limited, London Branch, The Bank of Nova Scotia, London Branch, Barclays Bank PLC, BNP Paribas, HSBC Bank plc, ICBC Standard Bank 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, Banco Santander, S.A., Skandinaviska Enskilda Banken AB (publ), SMBC Nikko Capital Markets Limited and The Toronto-Dominion Bank 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.

“**DNV**” means DNV Business Assurance Services UK Limited.

“**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.

“**DWI**” means the England and Wales Drinking Water Inspectorate.

“**EA**” or “**Environment Agency**” means the England and Wales Environment Agency.

“**Early Redemption Amount**” has the meaning, in relation to a Sub-Class of Bonds, given to such term in the Conditions relating to such Sub-Class of Bonds.

“**EIB**” means the European Investment Bank.

“**EIB Amendment Agreement**” means the amendment agreement dated the Initial Issue Date between the Existing Authorised Credit 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 Claim” means any claim, proceeding, formal notice or investigation by the relevant duly appointed person pursuant to any Environmental Law.

“Environmental Law” means any applicable law (including DETR Circular 02/2000) in force in any jurisdiction in which TWUL or any of its Subsidiaries or any Joint Venture in which it has an interest conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

“Environmental Permits” or **“Environmental Approvals”** 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.

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

“Euro” or **“€”** means the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

“Euroclear” means Euroclear Bank SA/NV.

“Euronext Dublin” means The Irish Stock Exchange plc trading as Euronext Dublin.

“**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,
- (c) and in each case, as notified by the Agent Bank to the Security Trustee.

“**Excluded Accounts**” means the Issuer’s O&M Reserve Account and Debt Service Reserve Accounts to the extent the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant Liquidity Facility, and each Swap Collateral Account.

“**Existing Authorised Credit Facilities**” means the following facilities provided to TWUL by the Existing Authorised Credit Provider pursuant to the Existing Authorised Credit Finance Contracts:

- (a) £50,000,000 EIB 6 6.28 per cent. due 2010;
- (b) £45,000,000 EIB 6 5.92 per cent. due 2010;
- (c) £30,000,000 EIB 6 3MLO-0.080 per cent. due 2008;
- (d) £50,000,000 EIB 7 6.58 per cent. due 2010;
- (e) £23,125,000 EIB 7 3MLO-0.143 per cent. due 2009;
- (f) £26,875,000 EIB 7 3MLO-0.063 per cent. due 2009;
- (g) £50,000,000 EIB 8 5.72 per cent. due 2011;
- (h) £50,000,000 EIB 8 3MLO+0.070 per cent. due 2011;
- (i) £150,000,000 EIB (2006) 6MLO+0.235 per cent. due 2017; and
- (j) any other facility provided to TWUL by the Existing Authorised Credit Provider pursuant to any Existing Authorised Credit Finance Contract.

“**Existing Authorised Credit Finance Contracts**” means:

- (a) the finance contract (FI No.1.7336) between TWUL and the Existing Authorised Credit Provider dated Reading, 3 March 1998, Luxembourg, 16 March 1998 in relation to the Thames Water III Project, as amended by a Letter dated Luxembourg, 16 March 1998 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007;
- (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;

- (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;
- (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; 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) above, 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; (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); 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) and each as amended, supplemented, assigned and novated prior to the Initial Issue Date, and each an “**Existing Finance Lease**”.

“**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 NatWest Markets 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.

“Exit Regulations” means the Water and Sewerage Undertakers (Exit from Non-household Retail Market) Regulations 2016.

“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*) to 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) the Intra-Group Hedging Agreements;
- (y) any other Authorised Credit Facilities; and
- (z) each agreement or other 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 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) monies 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 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 a Definitive Registered Bond in the form or substantially in the form set out in Part B (*Form of Definitive Registered Bond*) of Schedule 3 to the Bond Trust Deed.

“FSMA” means the Financial Services and Markets Act 2000, as amended.

“FWMA” means the Flood and Water Management Act 2010.

“G&R Deed” means a guarantee and reimbursement deed (or agreement of similar name and effect) between, among others, the Issuer and a Financial Guarantor in connection with a particular Tranche of Wrapped Bonds.

“Global Bond” means a Temporary Global Bond and/or a Permanent Global Bond and/or a Registered Global Bond and/or a Regulation S Global Bond, 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, 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) each Existing Hedge Counterparty; 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 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) (*Redemption for Index Event, Taxation or Other Reasons*).

“**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 Part B (*Form of Definitive Registered Bond*) of Schedule 3, Part B of the Bond Trust Deed having the relevant information 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 the Issuer.

“**Initial Credit Facility Provider**” means each of Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, London Branch, Dresdner Bank AG London Branch, HSBC Bank plc, Lloyds Bank 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 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 TWUCFL and TWUL on the Initial Issue Date.

“**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 the Issuer.

“**Initial O&M Reserve Facility Provider**” means each of Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, London Branch, Dresdner Bank AG London Branch, HSBC Bank plc, Royal Bank of Canada and The Royal Bank of Scotland plc, or any successor thereto.

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

“Initial Subordinated Creditor” means the Parent.

“Initial TWUF/TWUL Loan Agreement” means the loan agreement entered into between 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.

“**Insurances**” has the meaning given to the term in schedule 14 (*Insurances*) of the Common Terms Agreement.

“**Intellectual Property Right**” means all right, title and interest in:

- (a) any trademark, 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.

“**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.

“**Interim Determination**” means an interim determination as provided for in Part IV of Condition B of the Instrument of Appointment.

“**Intra-Group Debt Service Distribution**” means: (i) any Distribution or payment to be made by TWUL for the purpose of providing TWH with the funds required to enable TWH to meet its scheduled payment obligations to TWUL (as agreed from time to time by TWUL and TWH in accordance with the TWUL/TWH Loan Agreement) under the TWUL/TWH Loan Agreement; and (ii) any distribution or payment in respect of a Permitted Tax Loss Transaction between members of the TWU Financing Group.

“**Intra-Group Hedging Agreement**” means any agreement in respect of an Intra-Group Treasury Transaction.

“**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.

“**Intra-Group Treasury Transaction**” means any treasury transaction entered into between members of the TWU Financing Group in respect of any Hedging Agreements.

“**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(l) of the SIP Regulations.

“**IP Liability**” means any liability:

- (a) in respect of a historical period, which is shown in the financial statements of TWUL (delivered to the Security Trustee pursuant to paragraph 1 (*Financial Statements*) of Part 1 (*Information Covenants*) of Schedule 4 (*Covenants*) to the CTA) arising as a result of the treatment of the TTT Project in the financial statements of TWUL and described as such in the notes to the financial statements; or
- (b) in respect of a forward looking period, which is anticipated to arise as a result of the treatment of the TTT Project in the financial statements of TWUL and which is anticipated to be described as such in the notes to the financial statements.

In each case, the IP Liability shall not include any financial liability which arises (or is anticipated to arise) from amounts being overdue for payment or which represents (or is anticipated to represent) a legal repayment obligation of TWUL.

“**IP Owned Structures**” has the meaning given to it in the O&M Agreement.

“**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 Shareholders**” means Ontario Municipal Employees Retirement System, Universities Superannuation Scheme, Infinity Investments S.A., British Columbia Investment Management Corporation, Hermes GPE, China Investment Corporation, Aquila Sonnet Limited Partnership/ Aquila GP Inc., QIC Infrastructure Management PTY LTD/ Queensland Investment Corporation and Stichting Pensioenfonds Zorg en Welzijn (including any successors in title).

“**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, 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 paragraph (A) above; and
- (C) each anniversary of the date referred to in paragraph (B) above,

save that where any date referred to in paragraphs (b), (c), (A), (B) or (C) above 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.

“**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, National Westminster Bank Plc or any successor thereto and, in respect of any other Liquidity Facility Agreement, the facility agent under such Liquidity Facility Agreement.

“**Liquidity Facility Agreement**” means each liquidity facility agreement which has the characteristics set out in Schedule 13 (*DSR Liquidity Facilities/O&M Reserve Facility Terms*) to the CTA, as established in connection with each Sub-Class of Bonds issued by or other Authorised Credit Facility provided to the Issuer (or TWUL) or with shortfalls in funding for Projected Operating Expenditure or projected Capital Maintenance Expenditure, each counterparty to which has acceded to the terms of the STID and the CTA.

“**Liquidity Facility Arranger**” means any facility arranger under a Liquidity Facility Agreement.

“**Liquidity Facility Provider**” means any lender from time to time under a Liquidity Facility Agreement that has agreed to be bound by the terms of the STID and the CTA, including the DSR Liquidity Facility Providers and the O&M Reserve Facility Providers.

“**Listing Rules**” means the listing rules of the Financial Conduct Authority.

“**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 Market**” means the main market of the London Stock Exchange.

“**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.

“**Mandatory Cost Rate**” means, in relation to any Authorised Credit Facility, the addition to the interest rate payable to compensate that Authorised Credit Provider for the cost of compliance with the requirements of the Bank of England and/or the Financial Conduct Authority (or, in either case, any other authority which replaces all or any of its functions) in accordance with the formula(e) set out in the relevant Authorised Credit Facility.

“**Master Definitions Agreement**” or “**MDA**” means the master definitions agreement entered into on the Initial Issue Date and between, among others, the Obligor, 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, 31 August 2018, 26 April 2019, and 26 June 2020 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.

“**Material Capex Contract**” means:

- (a) any Capex Contract; and/or

- (b) any series of Capex Contracts entered into by TWUL with one or more contractors within the same corporate group (but excluding any such Capex Contracts which have expired and/or terminated),

where, in the case of paragraph (a) and/or (b) above, the aggregate annual value of such Capex Contract or all such Capex Contracts is equal to or greater than 5 per cent of RCV.

“**Material Contract**” means a Material Capex Contract and/or a Material Outsourcing Agreement.

“**Material Outsourcing Agreement**” means:

- (a) any Outsourcing Agreement; and/or
- (b) any series of Outsourcing Agreements entered into by TWUL with one or more contractors within the same corporate group (but excluding any such Outsourcing Agreements which have expired and/or terminated),

where, in the case of paragraph (a) and/or (b) above, the aggregate annual value of such Outsourcing Agreement or all such Outsourcing Agreements is equal to or greater than 5 per cent of RCV.

“**Maturity Date**” means the date on which a Bond is expressed to be redeemable or any other Authorised Credit Facility is expressed to be repayable in full.

“**megalitre**” means a million litres.

“**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”.

“**MI/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*).

“Notice of Disenfranchisement” has the meaning given to such term in Clause 2.5.5 (*Accession of Secondary Market Guarantors*) of the STID.

“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 Financial Conduct Authority.

“**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 Lease**” means any lease or hire purchase contract, a liability under which, if it had been outstanding at such time, would not, prior to 1 April 2019, be treated as a balance sheet liability.

“**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 monies (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 Conditions 8(f) (*Purchase of Bonds*) and 8(h) (*Redemption, Purchase and Cancellation*);
- (d) those Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 13 (*Prescription*);

- (e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);
- (f) (for the purpose only of ascertaining the nominal amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*); and
- (g) in the case of Bearer Bonds, any Global Bond to the extent that it has 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 has 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 a 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 a 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,
- (h) 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 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 TWUL 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 written 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 lengths terms entered into for bona fide commercial purposes in furtherance of TWUL's statutory and regulatory obligations;
- (m) is a Permitted Sale and Leaseback; or
- (n) any disposal pursuant to the Permitted Reorganisation,

provided that in each case: (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 paragraphs (m) and (n) 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 remains outstanding, the Obligors may not incur any additional Permitted Financial Indebtedness under this paragraph (f) for so long as any Unsecured TWUF Bond Debt remains outstanding if, as a result of such incurrence, the aggregate Permitted Financial Indebtedness outstanding under paragraphs (e) and (f)(i) of this definition would exceed 0.80 per cent. of RCV;
- (g) any Subordinated Debt entered into on or after the Initial Issue Date;
- (h) Financial Indebtedness incurred under the Intra-Group Loans;
- (i) Financial Indebtedness where only BACS or similar daylight-banking accommodation is provided;
- (j) such further Financial Indebtedness incurred by the Issuer, TWUF or TWUL that complies with the following conditions:
 - (i) at the time of incurrence of that Financial Indebtedness, (save in respect of Qualifying Indebtedness) no Default is continuing or will arise as a result of the incurrence of such Financial Indebtedness (and in respect of Qualifying Indebtedness, no Event of Default or Potential Event of Default is continuing or will arise as a result of the incurrence of such Qualifying Indebtedness);
 - (ii) the Financial Indebtedness is made available pursuant to an Authorised Credit Facility Agreement, the provider of which is a party to, or has acceded to, the CTA and STID;
 - (iii) as a result of the incurrence of the Financial Indebtedness:
 - (A) neither TWUL, TWUF nor the Issuer will be in breach of paragraph 4 (*DSR Liquidity Facility*) of Part 2 (*Financial Covenants*) of Schedule 4 (*Covenants*) to the CTA; and
 - (B) no Authorised Credit Provider will have substantially better or additional entrenched rights under the STID than those Authorised Credit Providers providing similar Financial Indebtedness of the same class; and
 - (C) the Hedging Policy shall continue to be complied with in all respects;
 - (iv) the Financial Indebtedness which is Class A Debt ranks (save for, if applicable, any Financial Guarantee) *pari passu* in all respects (but subject to the priorities set out in Paragraph 9 of Schedule 11 to the CTA) with all other Class A Debt in its category of Class A Debt and the Financial Indebtedness that is Class B Debt ranks *pari passu* in all respects (but subject to the priorities set out in Paragraph 9 of Schedule 11 to the CTA) with all other Class B Debt in its category of Class B Debt;
 - (v) if such further Financial Indebtedness is Class A Debt or Class B Debt then the Senior RAR and the Conformed Senior RAR (taking into account the proposed incurrence of such debt) must be less than or equal to: (i) prior to the Ratio Step Date, 2:1 and 0.75:1 (respectively); and (ii) from and including the Ratio Step Date, 2:1 and 0.90:1 (respectively) for each Test Period calculated by reference to the then most recently occurring Calculation Date,

- (vi) provided that this limb (v) will not apply to any Qualifying Indebtedness;
 - (vii) 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,
 - (viii) provided that this limb (vi) will not apply to any Qualifying Indebtedness;
 - (ix) 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
 - (x) 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;
 - (m) any Financial Indebtedness or other financial liability shown in the accounts of TWUL arising (in either case) from the IP Liability;
 - (n) Financial Indebtedness incurred under any Operating Lease provided that the aggregate amount of such Financial Indebtedness does not exceed 2 per cent. of RCV; or
 - (o) such further Financial Indebtedness incurred by the Issuer, TWUF or TWUL under a Liquidity Facility.

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 of 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 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.

“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, 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 £15,000,000,000 guaranteed bond programme established by the Issuer admitted to the Official List and to the London Stock Exchange or the main securities market of Euronext Dublin.

“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.

“Projected Operating Expenditure” means at any time, the operating expenditure projected in the operating budget for the Test Period in which such date falls.

“Prospectus” means any Prospectus prepared by or on behalf of, and approved by, the Issuer in connection with the establishment of the Programme (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.

“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.

"**PwC**" means PricewaterhouseCoopers LLP.

"**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.

"**Qualifying Indebtedness**" means Financial Indebtedness:

- (a) incurred under a revolving credit facility which is being rolled over and immediately re-borrowed at the end of the relevant interest period of any Financial Indebtedness (commonly referred to as a "rollover loan"); or
- (b) incurred under any Authorised Credit Facility which was originally entered into when no Trigger Event had occurred and was continuing and for these purposes, any such Authorised Credit Facility may be amended, restated or have its term extended when a Trigger Event or Potential Trigger Event is continuing, provided such amendment, restatement or extension does not increase the total principal amount committed under such Authorised Credit Facility.

"**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.

“**Recognised Ofwat Mechanism**” means any of: (i) logging up of RCV, where Ofwat has approved the relevant Capital Expenditure and the reporter has reviewed and validated the cost of such Capital Expenditure; or (ii) an Interim Determination, where a “Relevant Change of Circumstance” (as defined in Part IV of Licence Condition B) of the Instrument of Appointment has, in the reasonable opinion of TWUL, arisen; or (iii) any other similar mechanism as agreed from time to time between Ofwat and TWUL and approved by the Security Trustee.

“**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 National Westminster Bank 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 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 and refers to a Regulation S Registered Global Bond, as the context may require.

“**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**” means Regulation S under the Securities Act.

“**Regulation S 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 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 Series sold outside the United States or to non-U.S. persons in reliance on Regulation S, issued by the Issuer (including any such 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 and includes any replacements for Receipts or Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts, and Talons*).

“**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(1) (*Definitions*).

“**Relevant Securities**” means securities offered and sold by an Obligor to one or more Institutional Accredited Investors (as such term is defined in the Securities Act) pursuant to an Authorised Credit Facility in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof.

“**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 Chargor**” means each of the Issuer, TWUL and TWUCFL and any other entity which accedes to the Security Agreement pursuant to clause 22.3 (*Further Subsidiaries*) thereof that is restricted from providing guarantees by its regulatory or statutory obligations.

“**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.

“**Restricted Secured Liabilities**” means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each Restricted Chargor to any Secured Creditor under each Finance Document to which such Restricted Chargor is a party, except for any obligation which, if it were secured under the Security Agreement would result in a contravention of section 151 of the Companies Act 1985.

“**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, it 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.

“**SCADA**” means supervisory, control and data acquisition.

“**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 a 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 His 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, as amended.

“**Security**” means the security constituted by the Security Documents including any Guarantee or obligation to provide cash collateral or further assurance thereunder.

“**Security Agreement**” means the deed of charge and guarantee 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 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; and (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.

“**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 S&P Global Ratings Europe Limited or any successor to the rating agency business of S&P Global Ratings Europe Limited.

“**Standby Drawing**” means a drawing made under a Liquidity Facility Agreement as a result of a downgrade of a Liquidity Facility Provider below the Minimum Short-Term Rating or in the event that the Liquidity Facility Provider fails to renew its commitment on the expiry of the term of such Liquidity Facility Agreement.

“**Standstill**” means, as provided for in Clause 13.1 (*Commencement of Standstill*) of the STID, a standstill of claims of the Secured Creditors against TWUL and the Issuer immediately upon notification to the Security Trustee of the occurrence of an Event of Default.

“**Standstill Cash Manager**” means National Westminster Bank 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.

“**Sub-Tranche**” means a division of a Tranche.

“**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, Coupons, Receipts, 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, in each case excluding any Intra-Group Treasury Transaction.

“**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 CMA 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 CMA pursuant to the regulatory settlement process; and (iv) Bazalgette will 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; or (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.

“**TWUCFH**” means Thames Water Utilities Cayman Finance Holdings Limited.

“**TWUCFL**” means Thames Water Utilities Cayman Finance 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.

“**TWUL Works**” means those works set out in the schedule to the Interface Agreement.

“**UK**” means the United Kingdom.

“**UK CRA Regulation**” means Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 on credit rating agencies.

“**UK Prospectus Regulation**” means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

“**Unrestricted Chargors**” means TWH and any other entity which accedes to the Security Agreement pursuant to clause 22.3 (*Further Subsidiaries*) of the Security Agreement thereof that is not restricted by its regulatory or statutory obligations from providing guarantees to any other entity.

“**Unrestricted Secured Liabilities**” means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each Chargor (as defined in the Security Agreement) to any Secured Creditor under each Finance Document to which such Chargor is a party, except for any obligation which, if it were secured under the Security Agreement would result in a contravention of section 151 of the Companies Act 1985.

“**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.

“**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).

“**Variiances**” 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**” means: (a) in respect of any Finance Lease Document, has the meaning given thereto in such Finance Lease Document; and (b) otherwise, means value added tax as imposed by the Value Added Tax Act 1994 and legislation supplemental thereof and other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of, or in addition to, VAT) or elsewhere.

“**VMR Programme**” means the Victorian mains replacement programme.

“**Voted Qualifying Class A Debt**” means the aggregate Outstanding Principal Amount of Class A Debt voted by the Class A DIG Representatives in accordance with Clause 9.8 (*Binding Vote of DIG Representatives*) of the STID.

“**Voted Qualifying Class B Debt**” means the aggregate Outstanding Principal Amount of Class B Debt voted by the Class B DIG Representatives in accordance with Clause 9.8 (*Binding Vote of DIG Representatives*) of the STID.

“**Water Framework Directive**” or “**WFD**” means European Council Directive 2000/60/EC.

“**WIA**” or “**Water Industry Act**” 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.

“**Working Capital Facility**” means the revolving credit facility of an amount £200 million made available on the Initial Issue Date to TWUFCL by the Initial Credit Facility Providers to be on-lent by TWUFCL to TWUL to fund the working capital requirements of TWUL.

“**WRA**” means the United Kingdom Water Resources Act 1991, as amended by subsequent legislation including the United Kingdom Environment Act 1995.

“**Wrapped Bondholders**” means the holders for the time being of the Wrapped Bonds and “**Wrapped Bondholder**” shall be construed accordingly.

“**Wrapped Bonds**” means the Bonds that have the benefit of a Financial Guarantee.

“**WSRA**” means the Water Services Regulation Authority (WSRA, and otherwise known as Ofwat), the economic regulator of the water and sewerage industry in England and Wales and any relevant successor bodies to the Water Services Regulation Authority.

“**Zero Coupon Bond**” means a Bond specified as such in the relevant Final Terms and on which no interest is payable.

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