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THAMES WATER UTILITIES CAYMAN FINANCE LIMITED

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

£10,000,000,000

Multicurrency programme for the issuance of

Guaranteed Wrapped Bonds unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to financial guarantees issued by a Relevant Financial Guarantor

and Guaranteed Unwrapped Bonds financing

Thames Water Utilities Limited

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

The payment of all amounts owing in respect of the bonds (the "**Bonds**") will be unconditionally and irrevocably guaranteed by Thames Water Utilities Limited ("**TWUL**"), Thames Water Utilities Holdings Limited ("**TWH**") and Thames Water Utilities Finance Limited ("**TWUF**") as described herein. TWUL, TWUF, Thames Water Utilities Cayman Finance Limited (the "**Issuer**") and TWH are together referred to herein as the "**Obligors**". TWH has no significant assets other than the shares in its wholly-owned subsidiary, TWUL.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended ("**FSMA**") (the "**UK Listing Authority**" or "**UKLA**") for Bonds issued under the £10,000,000,000 multicurrency programme (the "**Programme**") during the period of twelve months after the date hereof, to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such bonds to be admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market (the "**Market**"). References in this Prospectus to Bonds being "**listed**" (and all related references) shall mean that such Bonds have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC. The Programme provides that Bonds may be listed on such other or further stock exchange(s) as may be agreed between the Obligors and the relevant Dealer (as defined below). The Issuer may also issue unlisted Bonds.

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

See Chapter 5 "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

**Barclays Capital
HSBC**

**Dresdner Kleinwort
RBC Capital Markets**

Macquarie Bank Limited

Joint Arrangers

Prospectus dated 24 August 2007

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

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

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

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

Each Class of Bonds is expected on issue to have the following credit ratings:

	<u>Standard & Poor's</u>	<u>Moody's</u>
Class A Wrapped Bonds	AAA	Aaa
Class A Unwrapped Bonds	BBB+	A3

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

Each Sub-Class of Bearer Bonds may be represented initially by a Temporary Global Bond (as defined below), without interest coupons, which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg (as defined below) on or about the Issue Date (as defined below) of such Sub-Class. Each such Temporary Global Bond will be exchangeable for definitive securities in bearer form following the expiration of 40 days after the later of the commencement of the offering and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership or to the effect that the

holder is a U.S. person who purchased in a transaction that did not require registration under the Securities Act (as defined below) and as may be required by U.S. tax laws and regulations, as described in Chapter 8 "*The Bonds*" under "*Forms of the Bonds*". Ratings ascribed to all of the Bonds reflect only the views of Standard & Poor's, a division of The McGraw Hill companies ("**Standard & Poor's**") and Moody's Investors Service Limited ("**Moody's**", together with Standard & Poor's, the "**Rating Agencies**").

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

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

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

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

IMPORTANT NOTICE

This prospectus (the "**Prospectus**") comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the other Obligors which, according to the particular nature of the Issuer and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

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

Atkins Limited ("**Atkins**") accepts responsibility for the information contained in Appendix B (*Atkins Limited Technical Letter*) on page 200 (the "**Atkins Information**"). To the best of the knowledge and belief of Atkins (which has taken all reasonable care to ensure that such is the case), the Atkins Information is in accordance with the facts and does not omit anything likely to affect the import of such information. Atkins accepts no responsibility for any other information contained in this Prospectus, which it has not separately verified. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Atkins as to the accuracy or completeness of any information contained in this Prospectus (other than the Atkins Information) or any other information supplied in connection with the Programme or distribution of any Bonds issued under the Programme.

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

Copies of each set of Final Terms (in the case of Bonds to be admitted to the Official List) will be available from Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB and from the specified office set out below of each of the Paying Agents or the Registrar and Transfer Agents (as applicable).

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

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

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

No person has been authorised to give any information or to make representations other than the information or the representations contained in this Prospectus in connection with the Issuer, any member of the TWU Financing Group (as defined below) or the Thames Water Group (as defined below) or the offering or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, any member of the TWU Financing Group, the Thames Water Group, the Dealers, the Joint Arrangers, the Bond Trustee or the Security

Trustee. 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 since the date hereof. Unless otherwise indicated herein, all information in this Prospectus is given as of the date of this Prospectus. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or any Dealer to subscribe for, or purchase, any of the Bonds.

None of the Dealers, the Joint Arrangers, the Financial Guarantors, the Bond Trustee or the Security Trustee nor any of the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Agents, the Account Bank, the Standstill Cash Manager, the Existing Finance Lessors or the members of the Thames Water Group (other than the Obligors) (each as defined below and, together, the "**Other Parties**") has separately verified the information contained herein (other than, in respect of Atkins, the Atkins Information). 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 (other than, in respect of Atkins, the Atkins Information). The statements made in this paragraph are without prejudice to the respective responsibilities of the Issuer, the other Obligors and Atkins. 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 (other than, in respect of Atkins, the Atkins Information).

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Obligors or Atkins is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct or that there has been no adverse change in the financial position of the Issuer or the other Obligors as of any time subsequent to the date indicated in the document containing the same. None of the Dealers, the Financial Guarantors, the Bond Trustee, the Security Trustee or the Other Parties expressly undertakes to review the financial condition or affairs of any of the Obligors during the life of the Programme or to advise any investor in the Bonds of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Bonds.

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

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

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may include Bonds in bearer form that are subject to U.S. tax law requirements. Subject to certain exemptions, the Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in the Securities Act). The Bonds are being offered outside the United States in accordance with Regulation S under the Securities Act. See Chapter 11 "*Subscription and Sale*" below.

The distribution of this Prospectus and the offering, sale or delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the other Obligors and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on distribution of this Prospectus, see Chapter 11 "*Subscription and Sale*" below. This Prospectus does

not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Bonds in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with (i) the audited annual financial statements of TWUF for the year ended 31 December 2005 and the fifteen month period ended 31 March 2007; and (ii) the audited annual financial statements of TWUL for the year ended 31 December 2005, each of which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Services Authority or filed with it save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Each of TWUL and TWUF 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 deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to either of TWUL or TWUF, as appropriate, at their respective offices set out at the end of this Prospectus.

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/en-gb/pricesnews/marketnews/>.

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.

SUPPLEMENTAL PROSPECTUS

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

Each of the Obligors has undertaken to the Dealers in the Dealership Agreement (as defined in Chapter 11 "*Subscription and Sale*") to comply with Section 81 of the FSMA.

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

If at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87(G) of the Financial Services and Markets Act 2000 (the "**FSMA**"), the Issuer shall prepare and make available an appropriate supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental prospectus as required by the UK Listing Authority and Section 87(G) of the FSMA.

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CHAPTER 1 THE PARTIES

Issuer	Thames Water Utilities Cayman Finance Limited, a company incorporated in the Cayman Islands with limited liability with registered number MC-187772, is the funding vehicle for raising funds to support the long-term debt financing requirements of TWUL. The Issuer is a wholly-owned subsidiary of TWUL.
TWUL	Thames Water Utilities Limited, a company incorporated in England and Wales with limited liability (registered number 2366661), which holds an Instrument of Appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the Secretary of State for the Environment appointed TWUL as a water undertaker under 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). 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).
TWUF	Thames Water Utilities Finance Limited, a company incorporated with limited liability in England and Wales (registered number 2403744). TWUF is a wholly-owned subsidiary of TWUL.
Guarantors	Pursuant to the terms of the Security Agreement, TWH will guarantee the obligations of TWUL, TWUF and the Issuer under each Finance Document in favour of the Security Trustee. In addition, TWUL, TWUF and the Issuer will each guarantee the obligations of each other (but not those of TWH) under each Finance Document in favour of the Security Trustee. TWH, TWUL, TWUF and the Issuer are collectively referred to herein as the " Guarantors " and each a " Guarantor ".
TWU Financing Group	The TWU Financing Group will comprise TWH, TWUL, TWUF and the Issuer on the Initial Issue Date.
Thames Water Group	Kemble Water Holdings Limited and its Subsidiaries from time to time.
Joint Arrangers	Barclays Bank PLC, Dresdner Bank AG London Branch, HSBC Bank plc, Royal Bank of Canada Europe Limited and Macquarie Bank Limited, London Branch.
Dealers	Barclays Bank PLC, Dresdner Bank AG London Branch, HSBC Bank plc, Royal Bank of Canada Europe Limited and Macquarie Bank Limited, London Branch will act as dealers (together with any other dealer appointed from time to time by the Issuer and the other Guarantors, " Dealers ") either

generally with respect to the Programme or in relation to a particular Tranche, Sub-Class, Class or Series of Bonds.

Financial Guarantors	The Issuer may arrange for financial guarantee companies (each a " Financial Guarantor ") to issue Financial Guarantees in favour of the Bond Trustee in respect of Classes or Sub-Classes of Class A Wrapped Bonds and/or Class B Wrapped Bonds issued or raised under an Authorised Credit Facility. Such Financial Guarantors will unconditionally and irrevocably guarantee the scheduled payment of interest and principal (as adjusted for indexation, as applicable, but excluding the FG Excepted Amounts) in respect of such Wrapped Bonds.
Secondary Market Guarantors	Each Eligible Secondary Market Guarantor that, from time to time, in respect of any Class A Unwrapped Bonds (i) delivers an FG Covered Bond Notice (as defined below) to the Security Trustee and the Bond Trustee in accordance with the provisions of the STID; and (ii) accedes to the STID in accordance with the provisions thereof (each in such capacity, a " Secondary Market Guarantor ").
Hedge Counterparties	The Royal Bank of Scotland plc, a public limited company incorporated in England and Wales, acting through its office at RBS Global Banking and Markets, 135 Bishopsgate, London EC2M 3UR, Deutsche Bank AG, London Branch (previously Deutsche Bank AG London), a company incorporated in Germany, acting through its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, JPMorgan Chase Bank, N.A., a company incorporated in the state of New York, acting through its office at 60 Wall Street, New York, New York 10260 and Bayerische Landesbank, a company incorporated in Germany, acting through its office at Brienner Straße 18, D-80277 München (each an " Existing Hedge Counterparty ", together with any counterparties to future Hedging Agreements, the " Hedge Counterparties "). The Existing Hedge Counterparties are under no obligation to enter into any Treasury Transactions after the Initial Issue Date.
Bond Trustee	Deutsche Trustee Company Limited 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 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 will 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.)
Initial DSR Liquidity Facility Providers	Certain financial institutions to be assembled by the Thames Water Group each having the Minimum Short-Term Rating (each an " Initial DSR Liquidity Facility Provider " and together, the " Initial DSR Liquidity Facility Providers ").

Initial O&M Reserve Facility Providers	Certain financial institutions to be assembled by the Thames Water Group each having the Minimum Short-Term Rating (each an " Initial O&M Reserve Facility Provider " and together, the " Initial O&M Reserve Facility Providers ").
Initial Credit Facility Providers	Certain financial institutions to be assembled by the Thames Water Group each having the Minimum Short-Term Rating (each an " Initial Credit Facility Provider " and together, the " Initial Credit Facility Providers ").
Existing Authorised Credit Provider	European Investment Bank, acting through its office at 100 boulevard Konrad Adenauer, Luxembourg-Kirchberg, Grand Duchy of Luxembourg (the " Existing Authorised Credit Provider ").
Finance Lessors	Each of R.B. Leasing (September) Limited and RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited) (together the " Existing Finance Lessors "), which lease plant, machinery and equipment to TWUL under the terms of various finance leases (the " Existing Finance Leases " and together with any future finance leases, the " Finance Leases ").
Paying Agents	Deutsche Bank AG, London Branch 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 will act as agent bank (the " Agent Bank ") under the Agency Agreement in respect of the Bonds.
Account Bank	National Westminster Bank plc, acting through its City of London office at 1 Princes Street, London (the " Account Bank ").
Cash Manager	TWUL (the " Cash Manager "), or during a Standstill Period, The Royal Bank of Scotland plc (the " Standstill Cash Manager ").
Registrar and Transfer Agent	Deutsche Bank Trust Company Americas will act as transfer agent (the " Transfer Agent ") and will provide certain transfer agency services to the Issuer in respect of the Registered Bonds. Deutsche Bank Trust Company Americas will act as registrar (the " Registrar ") and will provide certain registrar services to the Issuer in respect of the Registered Bonds.
Flipper Bond Trustee	The Law Debenture Trust Corporation p.l.c. is the trustee for and on behalf of the holders of each class of Flipper Bonds (in such capacity, the " Flipper Bond Trustee ").
Legacy Bond Trustee	The Law Debenture Trust Corporation p.l.c. is the trustee for and on behalf of the holders of each class of Legacy Bonds (in such capacity, the " Legacy Bond Trustee ").
JPY Bond Trustee	The Law Debenture Trust Corporation p.l.c. is the trustee for

and on behalf of the holders of each class of JPY Bonds (in such capacity, the "**JPY Bond Trustee**" and, together with the Flipper Bond Trustee and the Legacy Bond Trustee, the "**TWUF Bond Trustees**" and each a "**TWUF Bond Trustee**").

CHAPTER 2 OVERVIEW OF THE PROGRAMME

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

Description	Guaranteed Bond Programme.
Programme Size	Up to £10,000,000,000 (or its equivalent in other currencies calculated as described herein) aggregate nominal amount of Bonds Outstanding at any time.
Issuance in Classes	<p>Bonds issued under the Programme 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 will be set out in the applicable Final Terms.</p>
Issue Dates	The date of issue of a Tranche of Bonds as specified in the relevant Final Terms (each an " Issue Date ").
Distribution	Bonds 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 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 11 "<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 have a denomination of at least £100,000 or its equivalent. See Chapter 11 "<i>Subscription and Sale</i>".</p>
Currencies	Euro, Sterling, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.

Redenomination	The applicable Final Terms may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 (<i>European Economic and Monetary Union</i>), as amended by the applicable Final Terms.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the Relevant Currency (as defined in the Conditions).
Issue Price	Bonds may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Interest	Bonds will, unless otherwise specified in the relevant Final Terms, be interest-bearing and interest will be calculated (unless otherwise specified in the relevant Final Terms) on the Principal Amount Outstanding (as defined in the Conditions) of such Bond. Interest will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and will be payable in arrear, as specified in the relevant Final Terms, or on such other basis and at such rate as may be so specified. Interest will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be agreed between the Issuer and the relevant Dealer as specified in the relevant Final Terms.
Form of Bonds	Each 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 will bear interest at a fixed rate of interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, as specified in the relevant Final Terms.
Floating Rate Bonds	Floating Rate Bonds will bear interest at a rate determined: <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the Relevant Currency governed by an agreement incorporating the 2000 ISDA Definitions (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); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

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

Indexed Bonds

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

Interest Payment Dates

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

Redemption

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

**Redemption for Index Event,
Taxation or Other Reasons**

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

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

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

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

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

Denomination of Bonds

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

Taxation

Payments in respect of Bonds or under the relevant Financial Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, unless and save to the extent that the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event and to that extent, the Issuer and, to the extent there is a claim under the relevant Financial Guarantee, the relevant Financial Guarantor will make payments subject to the appropriate withholding or deduction. Notwithstanding the foregoing, no additional amounts will be paid by the Issuer or the Guarantors or, to the extent there is a claim under the relevant Financial Guarantee, by the relevant Financial Guarantor in respect of any withholdings or deductions, unless otherwise specified in the applicable Final Terms.

Status of the Bonds

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

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

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

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

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

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

Covenants

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

Guarantee and Security

The Bonds will be unconditionally and irrevocably guaranteed and secured by each of TWUL, TWUF 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 will be held by the Security Trustee on trust for the Secured Creditors (as defined below) under the terms of the Security Agreement and subject to the terms of the STID (as defined below).

Intercreditor Arrangements

The Secured Creditors, each Secondary Market Guarantor and each Obligor will each be party to a security trust and intercreditor deed dated on or around the Initial Issue Date (the "**STID**"), which will regulate, among other things, (i) the claims of the Secured Creditors; (ii) the exercise and enforcement of rights by the Secured Creditors; (iii) the rights of the Secured Creditors and the Secondary Market Guarantors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during the occurrence of an Event of Default; (v) the Entrenched Rights and Reserved Matters of each Secured Creditor; and (vi) the giving of consents and waivers and the making of amendments by the Secured Creditors and the Secondary Market Guarantors. See Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".

Status of Financial Guarantees in relation to Wrapped Bonds

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

Reimbursement

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

Authorised Credit Facilities

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

Initial Credit Facility

The Initial Credit Facility Providers will provide an Authorised Credit Facility to the Issuer (the "**Initial Credit Facility**") in the form of a revolving credit facility comprising (i) a £200 million tranche available until the third anniversary of the Initial Issue Date, pursuant to on lending under the Initial Issuer/TWUL Loan Agreement, to fund the working capital requirements of TWUL (including, for the avoidance of doubt, the refinancing of debt) (the "**Working Capital Facility**"); and (ii) a £550 million tranche available until the third anniversary of the Initial Issue Date, pursuant to on lending under the Initial Issuer/TWUL Loan Agreement, to fund the capital expenditure and general corporate purposes of TWUL (the "**Capital Expenditure Facility**"). The proceeds of any drawing under the Working Capital Facility and the Capital Expenditure Facility will be on-lent by the Issuer to TWUL pursuant to the Initial Issuer/TWUL Loan Agreement.

DSR Liquidity Facility

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

O&M Reserve Facility

The O&M Reserve Facility Providers will 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 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 Market. The Bonds may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.

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

Ratings

The ratings assigned to the Class A Wrapped Bonds and the Class B Wrapped Bonds will be based solely on the debt rating of the Relevant Financial Guarantor appointed and reflect only the views of the Rating Agencies. The ratings assigned to the Class A Unwrapped Bonds and the Class B Unwrapped Bonds by the Rating Agencies reflect only the views of the Rating Agencies. The initial ratings of a Series of Bonds will be specified in the relevant Final Terms.

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

The underlying shadow rating of the initial Series of Class A Wrapped Bonds and the rating assigned to the initial Series of Class A Unwrapped Bonds is expected to be BBB+ and A3 by Standard & Poor's and Moody's respectively.

Governing Law

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

Selling Restrictions

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

Investor Information

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

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

**CHAPTER 3
OVERVIEW OF THE FINANCING STRUCTURE**

The TWU Financing Group will consist of TWH, TWUL, TWUF and the Issuer.

FIGURE 1 – OWNERSHIP STRUCTURE

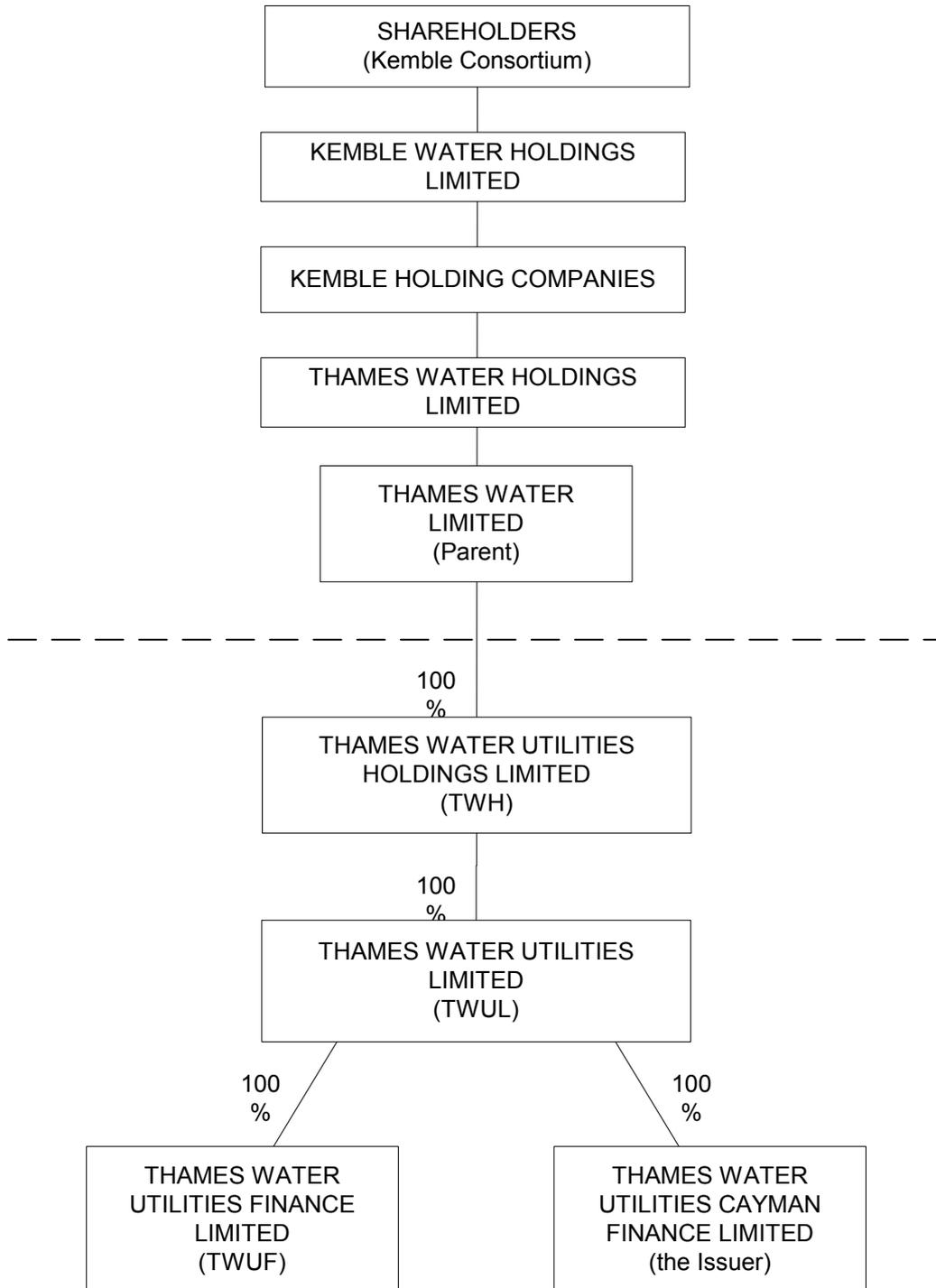
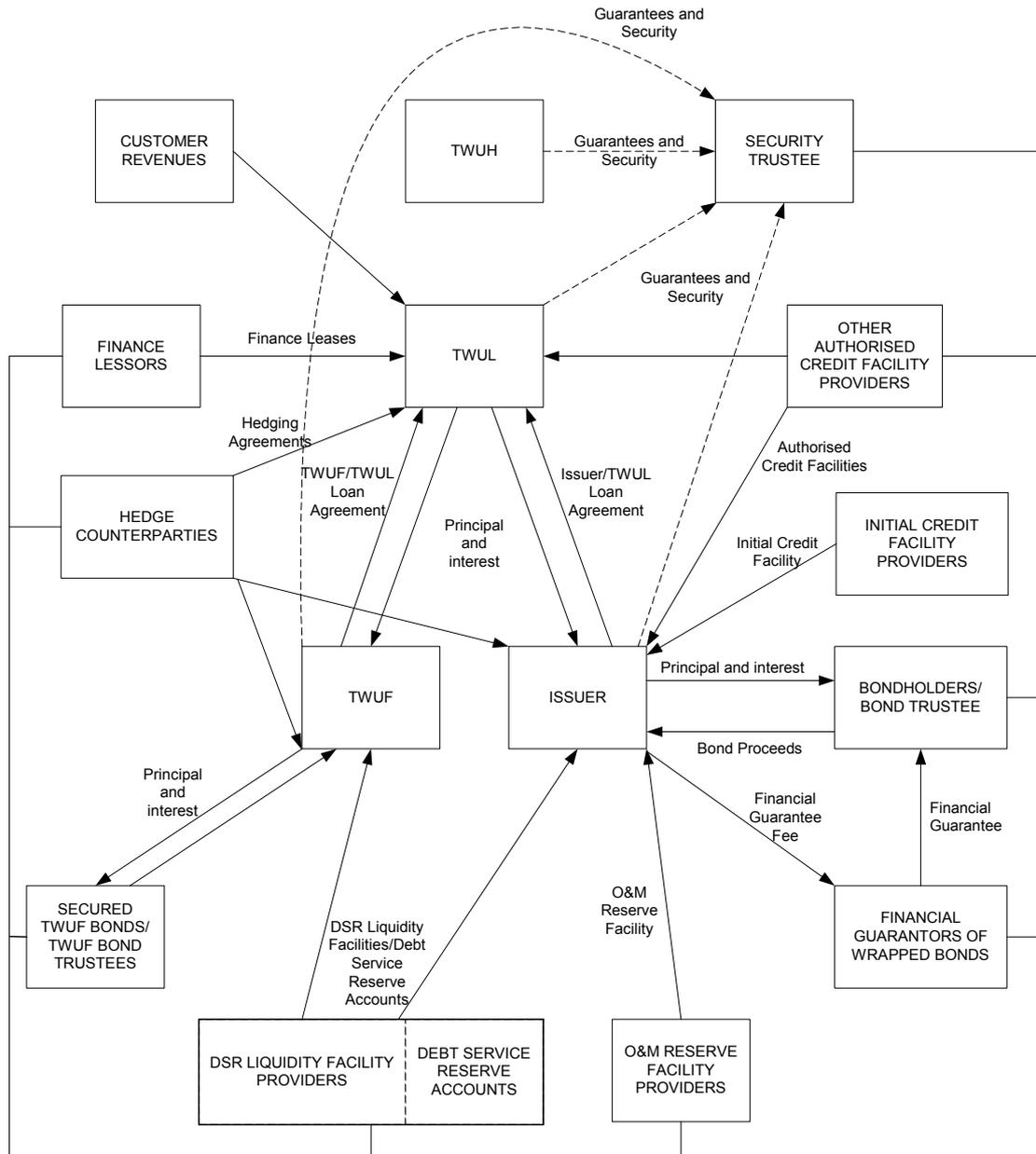


Figure 1 illustrates the ownership structure of the TWU Financing Group, together with an outline of the upstream shareholding structure, as of the Initial Issue Date:

- The Issuer is a wholly-owned subsidiary of TWUL.

- TWUF is a wholly-owned subsidiary of TWUL.
- The entire issued ordinary share capital of TWUL is held by TWH, whose entire issued share capital is held by the Parent, which is outside the ring-fence.
- TWH is a special purpose vehicle incorporated to be the holding company of TWUL, TWUF and the Issuer, to enter into the Finance Documents and, in particular, to grant security over the shares of its subsidiaries pursuant to the Security Agreement.

FIGURE 2 – PROGRAMME STRUCTURE



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

- The Issuer and TWUF may also borrow money from Authorised Credit Providers under Authorised Credit Facilities for funding the working capital and capital expenditure requirements of TWUL, to service and repay the TWU Financing Group's indebtedness and for the TWU Financing Group's general corporate purposes.
- The Issuer may additionally borrow money from O&M Reserve Facility Providers under O&M Reserve Facility Agreements for funding the operating and maintenance expenditure of TWUL.
- The advances to be made by the Issuer to TWUL under the Initial Issuer/TWUL Loan Agreement on the Initial Issue Date will reflect the corresponding amount and terms of borrowing by the Issuer of each Sub-Class of Bonds and each borrowing under any relevant Authorised Credit Facilities on the Initial Issue Date and, to the extent that such borrowing is hedged under a Hedging Agreement, the terms of such Hedging Agreement. The advances made by TWUF to TWUL under the TWUF/TWUL Loan Agreements will reflect the corresponding amount and terms of borrowing by TWUF of the TWUF Bonds and each borrowing under any relevant Authorised Credit Facilities and, to the extent that such borrowing is hedged under a Hedging Agreement, the terms of such Hedging Agreement.
- The Issuer will on-lend to TWUL the proceeds of each Series of Bonds issued after the Initial Issue Date and each advance to the Issuer under each Authorised Credit Facility after the Initial Issue Date, pursuant to an Issuer/TWUL Loan Agreement. TWUF will on-lend to TWUL each advance to TWUF under each Authorised Credit Facility pursuant to a TWUF/TWUL Loan Agreement.
- The Existing Finance Lessors provide financing of equipment to TWUL and additional Finance Lessors may provide financing of equipment to TWUL following the Initial Issue Date.
- Where applicable, each of TWUL, TWUF and/or the Issuer are required to hedge their respective interest rate and currency exposure under the Issuer/TWUL Loan Agreements, the TWUF/TWUL Loan Agreements, Authorised Credit Facilities and/or the Bonds (as appropriate) by entering into interest and currency swap agreements and other hedging arrangements with Hedge Counterparties in accordance with the Hedging Policy. The economic effect of any hedging entered into by the Issuer will be passed on to TWUL through the relevant Issuer/TWUL Loan Agreement and the economic effect of any hedging entered into by TWUF will be passed on to TWUL through the relevant TWUF/TWUL Loan Agreement.
- The Issuer's obligations to repay principal and pay interest on the Bonds and under each Authorised Credit Facility to which it is party as borrower are intended to be met primarily from the payments of principal and interest received from TWUL under the Issuer/TWUL Loan Agreements and where such payment has been hedged under a Hedging Agreement, under the relevant Hedging Agreement. Each Issuer/TWUL Loan Agreement will provide for payments to become due from TWUL to the Issuer on dates and in amounts that match the obligations of the Issuer to its various financiers under its financial arrangements plus a certain profit margin.
- The Issuer and/or TWUF may withdraw sums standing to the credit of the Debt Service Reserve Accounts and/or draw under any DSR Liquidity Facility to on-lend to TWUL to enable TWUL to meet any shortfall in the amounts available to TWUL on any Payment Date to pay scheduled interest and certain other payments under Authorised Credit Facilities of TWUL (including the Issuer/TWUL Loan Agreements and the TWUF/TWUL Loan Agreements), to enable the Issuer and TWUF to meet interest payments on the Bonds and certain other payments ranking in priority to or *pari passu* with the Bonds (excluding any principal repayments on Bonds).
- The respective obligations of TWUL, TWUF and the Issuer to each of their Secured Creditors will be guaranteed by each other in favour of the Security Trustee. TWH will in turn guarantee in favour of the Security Trustee the respective obligations of TWUL, TWUF and the Issuer.
- The obligations of each of TWUL, TWUF, the Issuer and TWH will be secured in favour of the Security Trustee under the terms of the Security Agreement.

- The guarantees and security granted by the Obligors will be held by the Security Trustee for itself and on behalf of the Secured Creditors under the terms of the STID, which regulates the rights and claims of the Secured Creditors (and the rights of the Secondary Market Guarantors to vote in relation thereto) against the Obligors and the duties and discretions of the Security Trustee.

CHAPTER 4 DESCRIPTION OF THE TWU FINANCING GROUP

On 1 December 2006, the Kemble Consortium (acting through its acquisition vehicle, Kemble Water Limited) acquired the entire share capital of Thames Water Holdings plc (now Thames Water Holdings Limited), the holding company of Thames Water plc (now Thames Water Limited), from the German utility group RWE AG, such acquisition being financed in part by a drawing under the Bridge Facility. The principal business of the Thames Water Group is Thames Water Utilities Limited ("TWUL"), its regulated water and wastewater company. The Thames Water Group also has a small number of non-regulated businesses, remaining outside the ring-fenced TWU Financing Group (a description of which is contained in the section "*Ring-fencing and the TWU Financing Group*" below).

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

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

TWUL

Operational and Financial Overview

TWUL is the largest supplier of water and provider of sewerage services in the UK, based on the number of customers served, which is set out in "*Water Supply Services — Customers*" and "*Sewerage Services — Customers*", in each case below. Based on the regulatory accounts filed with Ofwat (the economic regulator of the water and wastewater industry in England and Wales) forming part of the 2007 June Return, as at 31 March 2007 the value of TWUL's Appointed Business earning a return on investment (known as "**regulatory capital value**" or "**RCV**") was £6,501 million, making it one of the largest of the 10 regulated water and wastewater companies in England and Wales by RCV.

As set out in the statutory accounts prepared by TWUL and contained in Appendix C (*Independent Auditors' Report and Finance Statements of TWUL*) of this Prospectus, for the 15 months ended 31 March 2007 (the "**2007 Accounts**"), TWUL generated turnover of £1,778.1 million and profit on ordinary activities before taxation of £342.1 million. Based on the regulatory accounts filed with Ofwat forming part of the 2007 June Return, which takes account of both the Appointed Business and TWUL's non-regulated activities, total turnover for the 12 months ended 31 March 2007 for the Appointed Business was £1,385.8 million, with turnover from water services and sewerage services being of a near even split, accounting for £697.3 million and £688.5 million, respectively. Currently, no single customer accounts for revenues of more than £10 million per annum.

For the 15 months ended 31 March 2007, TWUL made regulated capital expenditure (including infrastructure renewals expenditure) of £919.7 million. This investment has been particularly targeted at leakage reduction, security of drinking water supplies to its customers, water and wastewater quality programmes and the alleviation of sewer flooding, as further explained below. To meet regulatory requirements and achieve its service objectives, TWUL has a substantial capital investment programme extending throughout the AMP4 Period (as defined below) and into subsequent AMP Periods. As stated in the regulatory accounts filed with Ofwat forming part of the 2007 June Return, the average number of persons employed by TWUL (including executive directors) for the twelve months ended 31 March 2007 was 5,280.

Under section 6 of the Water Industry Act 1991, as amended (the "**WIA**"), TWUL has been appointed as the water, and wastewater, undertaker for the geographic areas identified in the map below as the "Water Region" and the "Sewerage Region", respectively. Together, the Water Region and the Sewerage Region constitute the "**Region**". The Water Region and Sewerage Region broadly coincide, except where water is supplied by another water undertaker or sewerage services are carried out by neighbouring sewerage undertakers. The Region occupies approximately 13,331 square kilometres and

encompasses more than 9 per cent. of the area of England and Wales, and includes London, extends as far as Cirencester in the west, Dartford in the east, Banbury in the north and Haslemere in the south. The Region has an estimated population of approximately 13.5 million people, which represents nearly a quarter of the total population of England and Wales. The Water Region, which occupies a smaller area than the Sewerage Region, has a population of approximately 8.5 million.



Source: Waste Water Operational Overview – TWUL

History

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

Regulation and Licence

TWUL operates within a highly regulated industry in England and Wales and its operations are strongly influenced by economic, drinking water quality and environmental regulation. TWUL is licensed by the economic regulator of the water and wastewater industry in England and Wales to operate as a "Regulated Company" in England and Wales. From 1 April 2006, the WSRA (referred to below as "Ofwat", as per its public statement to this effect) succeeded the DGWS as the economic regulator and assumed the DGWS's price-setting and other functions.

TWUL's business and results are affected by the regulated tariff rates which TWUL may charge its customers as approved by Ofwat as well as by drinking water quality and environmental regulations and the terms of its Licence. Every five years, as part of its Periodic Review, Ofwat sets a price cap intended to enable water and wastewater companies in England and Wales to finance their operations and earn a reasonable return on capital. As part of this process, TWUL submits an asset management plan ("AMP") to Ofwat for approval prior to the start of each Periodic Review Period, after which a final determination (a "Final Determination") is made by Ofwat. The current AMP ("AMP4") relates to the period from 1 April 2005 to 31 March 2010 (the "AMP4 Period"), and the corresponding Final

Determination was published by Ofwat on 2 December 2004 (the "**2004 Final Determination**"). Where unexpected costs or savings occur during the period relating to a Final Determination, although mechanisms do exist to facilitate interim adjustments, such adjustments are subject to stringent conditions (as set out more fully in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*"), and therefore in practice these are generally only reflected in the prices set for the next Periodic Review Period.

The 2004 Final Determination set initial real price increases in 2005/06 at 14.9 per cent. with further real price increases totalling 6.1 per cent. over the following four years (2.1 per cent. in 2006/07, 1.2 per cent. in 2007/08, 1.3 per cent. in 2008/09 and 1.5 per cent. in 2009/10). As part of the 2004 Final Determination, Ofwat determined for the industry as a whole that the average household bill would increase by 18.5 per cent. in real terms during the AMP4 Period in order for certain regulatory output targets to be met. The actual cost increases allowable are subject to adjustment to reflect the prevailing rate of inflation measured by the Retail Price Index. These permitted price increases reflect, in particular, the considerable investment that will be required over the coming years to modernise and improve the security and quality of water supply and sewerage services. The price limits set as part of the 2004 Final Determination reflect the fact that Ofwat allowed a total of £3.1 billion (at 2002/03 prices) for the AMP4 Period for this investment.

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

Strategy

Following the acquisition of Thames Water Holdings plc (now Thames Water Holdings Limited) by the Kemble Consortium, a clear and simple business strategy has been set for TWUL to pursue, focusing on delivery of the regulatory contract through concerted efforts to meet security of supply, leakage, wastewater quality and customer service targets. The strategy also embraces a "back to basics" approach for the Appointed Business, with emphasis on controls, efficiencies, removal of "distraction factors" by the sale of non-regulated activities, significant investment and planning in the AMP5 process and an improvement in stakeholder relationships.

Water Supply Services

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

Customers

During the year ended 31 March 2007, TWUL supplied an average of approximately 2,023 Ml/d of water to approximately 3.4 million properties in the Water Region, representing all but a very small percentage of properties in the Water Region. In addition, in the same period, TWUL installed nearly 29,000 new water connections for households and non-households. TWUL's customer base for water services is predominantly residential, accounting for approximately 70 per cent. of its delivered volume during this period. Commercial and large industrial customers represented the balance of TWUL's delivered volume.

Water Resources, Treatment Infrastructure and Distribution

Water resources fall into two basic categories: surface water (primarily sourced from rivers) and groundwater (principally from aquifers or other underground sources). TWUL derives approximately 75 per cent. and 25 per cent. from surface and groundwater sources, respectively. Abstractions from these sources are made pursuant to abstraction licences issued by the EA as described further in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

Abstracted water is treated at water treatment works prior to distribution to customers through water mains and service pipes. TWUL operates approximately 100 water treatment works of which the five largest account for approximately 80 per cent. of the total water put into supply by TWUL in the Water

Region. Water from groundwater sources can be of such a quality that only disinfection treatment is necessary. In some cases, water abstracted from rivers may be directly presented to the water treatment works which can increase its vulnerability to contamination and cause fluctuations in quality. In such cases, the water is monitored to ensure that any corrective action necessary can be taken as and when required. However, at the majority of sites, raw water is stored in bankside storage reservoirs before being directed to the treatment works. More information on TWUL's water quality standards is contained in the section below entitled "*Drinking Water Quality*".

TWUL distributes treated water through approximately 31,000 kilometres of trunk and distribution mains, an estimated 90 per cent. of which are made of ferrous metal, and operates a total of approximately 235 service reservoirs. TWUL also has approximately 213 treated water pumping stations. In 1994, TWUL opened an underground tunnel, 83 kilometres long and 2.5 metres in diameter, which acts as a "ring of water" enabling water to flow around London via an integrated network (the "**Ring Main**"). The Ring Main has a capacity of 1.3 billion litres and provides water to customers in London via three connected treatment works. TWUL is proposing a £115 million extension programme to the Ring Main which would principally connect the water treatment works at Coppermills in north-east London to the main London system.

Supply and Demand Management

The Water Region is one of the driest in terms of rainfall in the UK and, as a result of the effect of climate change, is increasingly likely to be exposed to drought conditions. In order to ensure there is sufficient water to supply TWUL's drinking water customers, both now and in the future, TWUL needs to manage its water resources, treatment and distribution efficiently and effectively. TWUL is required to outline its long-term supply and demand strategy in its water resources plan (the "**Water Resources Plan**"), which must be submitted to Ofwat and the EA at the time of each Periodic Review. Accordingly, TWUL submitted a Water Resources Plan in 2004. However, this was supplemented by a subsequent Water Resources Plan in December 2006 which was prepared at the request of Ofwat as part of the Section 19 Leakage Undertaking (described in the section "*Leakage Control and Security of Supply*" below).

The main focal points of the current Water Resources Plan are: (i) assessing and making predictions of long-term future water demand needs; (ii) measures and strategies to contain and manage the demand for water from customers (including through the use of metering and tariff structures, developing "sustainable homes" and implementing strategies to encourage more efficient consumption of water); and (iii) projects to increase levels of water supply (including major infrastructure projects for water supply and leakage reduction). In relation to the last of these, TWUL is currently involved in developing two major projects:

- (a) A desalination plant in east London, which will use reverse osmosis technology to convert brackish water from the Thames estuary into drinking water (the "**Thames Gateway Project**"). Following a public inquiry in May/June 2006, the Department of Communities and Local Government and DEFRA granted formal approval for the Thames Gateway Project on 16 July 2007 (which as at the date of this Prospectus is subject to an appeal by the Mayor of London), subject to the satisfaction of certain specified planning conditions. Funding for the Thames Gateway Project has been allowed for in full in the 2004 Final Determination. TWUL expects the Thames Gateway Project to be operational during the year 2009/10. Completion of the Thames Gateway Project is fundamental to TWUL being able to meet Ofwat's Security of Supply Index target of 100 for 2009/10 (for more information on security of supply refer to "*Leakage Control and Security of Supply*" below). In the event that the Thames Gateway Project is not completed on schedule, TWUL anticipates that it will report a deficit against this target in 2009/10. In such circumstances TWUL would seek to reduce such deficit by putting in place contingency measures reflecting other areas of the Water Resources Plan, including: (i) increasing demand management initiatives, which may involve increasing the level of metered supplies (more information on metering is contained in the section "*Customer Charges*" below); (ii) accelerating the existing programme of mains replacement; and (iii) increasing levels of activity to reduce the volume of water lost through leakages (more information on leakage control is contained in the section "*Leakage Control and Security of Supply*" below).

- (b) A major proposal for additional storage capacity in Oxfordshire (the "**Upper Thames Major Resource Development Project**"), which would boost supplies to London and parts of the Thames Valley with effect from around the year 2019. The Upper Thames Major Resource Development Project is in the pre-planning phase, with an environmental impact assessment currently being undertaken.

In relation to measures and strategies to contain and manage the demand for water from customers, TWUL has had a comprehensive water efficiency strategy in place for over 10 years, focusing on raising customer awareness of the need to use water more conservatively. TWUL provides customers with water saving advice and access to water saving products, and supports relevant research. The importance of water conservation was highlighted in 2006/07, when the ongoing drought meant TWUL had to impose its first hosepipe ban for 15 years; this was the result of low rainfall levels in the winter months for the two preceding years, which reduced groundwater source supplies to very low levels. The significant rainfall experienced in the 2006 winter has restored these groundwater source supplies.

Drinking Water Quality

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

TWUL has continued to maintain a high level of compliance with drinking water standards. During the calendar year 2006, TWUL attained a compliance level of 99.97 per cent. in respect of mandatory EU and UK drinking water quality standards, which is comparable with the best in the water industry. This has largely been achieved as a result of ongoing investment improving drinking water quality throughout previous AMP Periods, which has continued into the AMP4 Period. This investment has focused on improving water treatment processes, in particular through installation of granular activated carbon and ozone at large London works to meet improving standards, especially for the removal of pesticides, but also additional processes for dealing with nitrates, cryptosporidium and solvents. A significant programme of mains renovation (in excess of 5,000 kilometres) has been delivered over the course of the AMP Periods for AMP2 and AMP3, and TWUL has compiled a distribution operation and maintenance strategy which is continually being revised and improved in response to feedback from the DWI.

Complaints which are received from customers in relation to various water quality issues, such as aeration, chlorinous taste/odour and discolouration, are investigated and responded to in a timely fashion. Overall, there has been a significant reduction of such complaints in recent years, of the order of 25 per cent., largely due to the success of TWUL's investment in water quality improvement projects.

Leakage Control and Security of Supply

Reducing leakage is TWUL's main operational priority, particularly in London. TWUL experiences the highest leakage levels of any water undertaker in the UK, and corrosive soils, heavy traffic and frequent ground movement have caused faster deterioration of the network than elsewhere. The age of the mains in London is also a concern: more than half of the water mains in London are over 100 years old, while around one-third are over 150 years old. Considerable investment has been allowed in the price limits for the AMP4 Period to address this issue and TWUL has agreed a plan with Ofwat to restore "stable" serviceability by the 2009 June Return, including by the acceleration of the VMR Programme as described below.

- (a) *Challenges faced by TWUL*

TWUL has an obligation to maintain security of water supplies to its customers. In recent years, TWUL has found this a challenge. For example, for the year 2005/06, TWUL attained

a Security of Supply Index of 22, which ranked as the lowest of all water undertakers in that year.

This overall security of supply obligation is supplemented by specific annual leakage reduction targets contained in the 2004 Final Determination and revised by the Section 19 Leakage Undertaking described below, requiring TWUL to reduce total leakage to 720 MI/d by 2009/10 (subject to subsequent downward adjustment by Ofwat to take into account levels of waste by consumers as described in "*Leakage management activities by TWUL*" below) and meet certain other targets in relation to areas such as mains replacement. There is a risk that the volume of work necessary to deliver the required leakage reduction will exceed that allowed for in the 2004 Final Determination, and this risk remains with TWUL.

Despite leakage reduction progress outside London, TWUL still faces significant leakage in some parts of London. London accounts for 87 per cent. of TWUL's leakage, but only 2 per cent. of the total leakage volume in London is attributable to visible leaks, making them difficult to detect and repair. TWUL has instigated its Victorian mains replacement programme (the "**VMR Programme**"), focusing on those areas of London where leakage is highest. In 2006, Ofwat raised concerns with TWUL over levels of leakage and security of supply in London. Following communications between TWUL and Ofwat, TWUL offered a Section 19 Undertaking (the "**Section 19 Leakage Undertaking**"), in lieu of enforcement action by Ofwat, which commits it to meet revised leakage and security of supply targets for the remainder of the AMP4 Period, as set out below. The Section 19 Leakage Undertaking was formally accepted by Ofwat on 4 July 2006 and has been published on the Ofwat website. The proposed completion of the VMR Programme has been accelerated as part of the Section 19 Leakage Undertaking.

(b) *Leakage management activities by TWUL*

Working to reduce leakage has historically been, and remains, TWUL's biggest operational priority. During the AMP4 Period, TWUL intends to invest a total of £1.15 billion to reduce leakage. More than 1,400 personnel are currently working to reduce leakage.

The Section 19 Leakage Undertaking set annual leakage targets at 840 MI/d for 2006/07, 785 MI/d for 2007/08, 745 MI/d for 2008/09 and 720 MI/d for 2009/10. These targets are reviewed by Ofwat after the end of each June Return period and revised where necessary to take account of levels of water wastage by consumers which are not attributable to the actions of TWUL. Following Ofwat's review of TWUL's 2006 June Return, these leakage reduction targets were adjusted downwards by 30 MI/d for each twelve-month period (together, the "**Interim Leakage Reduction Targets**"). In addition, as part of the Section 19 Leakage Undertaking, TWUL has made specific commitments to:

- (i) bring forward completion of the VMR Programme in London as set out in the 2004 Final Determination, resulting in the renewal of 1,235 kilometres of mains in London, from 31 March 2010 to 31 March 2009;
- (ii) complete an additional 368 kilometres of mains replacement in London by 31 March 2010, the cost of which will be met by TWUL and not included in TWUL's future RCV; and
- (iii) produce a fully updated Water Resources Plan and present it to Ofwat and the EA with a full commentary from the Reporter by December 2006. TWUL has complied with this requirement.

The additional expenditure on the VMR Programme for the remainder of the AMP4 Period following the Section 19 Leakage Undertaking is estimated by TWUL to be £157 million.

(c) *Current performance*

TWUL has taken steps to further accelerate investment in the VMR Programme. As a result of this and other of TWUL's continued efforts in this area, according to the 2007 June Return, TWUL improved upon the Interim Leakage Reduction Target of 810 MI/d for 2006/07, having attained a level of approximately 790 MI/d. TWUL also improved upon the Security of Supply Index target of 40 for 2006/07, attaining an index figure of 57.3.

Ofwat Performance Measures

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

(a) *Water pressure*

Water pressure is recorded as Ofwat's DG2 measure, which refers to "properties at risk of experiencing low water pressure". In 2006/07, only 0.03 per cent. of TWUL's connected properties were at risk of low pressure (a slight improvement on 2005/06).

(b) *Interruptions to supply*

Interruptions to supply are recorded as Ofwat's DG3 measure, which refers to "properties experiencing unplanned supply interruptions". TWUL's DG3 performance score (an index of the number of properties affected by unplanned supply interruptions as a percentage of the total properties connected to water) improved from an index of 0.97 in 2005/06 to 0.93 in 2006/07, although it remains in excess of the interim regulatory target which TWUL interpolates for the period. The majority of these interruptions were caused by a small number of large incidents, usually involving burst mains. TWUL has taken steps to reduce such interruptions by improvements to operational response, by examining the cause of recent incidents, and by developing a profile of the areas of the network most at risk of large scale events where investment may be necessary.

(c) *Serviceability assessment by Ofwat*

As described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*", Ofwat attributes Regulated Companies with serviceability ratings for water and wastewater services. In 2005/06, for its water services TWUL received an infrastructure serviceability assessment of "deteriorating", and a non-infrastructure serviceability assessment of "stable", each as reported in the 2006 June Return. The former is a reflection of the historically relatively slow pace of replacement of the ageing infrastructure as highlighted in "*Leakage Control and Security of Supply*" above. For 2006/07 (as reflected in the 2007 June Return), in relation to each measure, TWUL projects improvement to "marginal", and a continuation of "stable", respectively.

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

- (a) dividing up large water supply areas (known as zones) into smaller areas in order to deliver water more efficiently and meet local demands, referred to as "zonal reconfiguration"; and
- (b) carrying out "pressure management" exercises to reduce the strain on mains and thereby reduce the likelihood of bursts. The stress placed on the mains is partly caused by variations in pressure throughout the day and night as demand fluctuates over the course of that time.

These activities and the acceleration of the VMR Programme will deliver benefits in reducing the number of burst mains.

Sewerage Services

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

Customers

For the year ended 31 March 2007, TWUL received an estimated flow of 2,834 MI/d of wastewater (including trade effluent) into its sewerage network, which serves approximately 5.3 million properties. During the year ended 31 March 2007, TWUL installed 23,440 new sewerage connections to households and non-households. Approximately 77 per cent. of TWUL's customers are residential.

Sewerage Infrastructure

TWUL is responsible for an estimated 67,000 kilometres of sewers. Approximately one-fifth of TWUL's sewerage system, including most of the directly managed trunk sewers, are critical sewers, which means either that the sewers are strategically important, or that in the event of failure, engineering repair costs or traffic delay costs are likely to be high. Their condition is covered by an internal monitoring policy which requires systematic inspection designed to enable maintenance to a high standard.

Ofwat Performance Measures

The primary measure of the performance by a sewerage undertaker is the number of sewer collapses in the year. In addition, the number of properties at risk of internal flooding twice in 10 years (referred to as "DG5") is a key secondary performance measure, whilst Ofwat also assigns TWUL an assessment of its sewerage infrastructure and non-infrastructure serviceability.

(a) *Sewer collapses*

In 2006/07, there was an average of 7.6 sewer collapses per 1,000 kilometres in the Sewerage Region. This represents an improvement on an average of 13.2 in 2005/06.

(b) *Sewer flooding*

Although TWUL's sewerage system generally has the capacity to deal with high loading, flooding can sometimes occur, particularly, in the case of combined sewers, following heavy rain. In 2006/07, there were 575 properties reported as being at risk of flooding due to hydraulic overloading twice in 10 years, which was the lowest reported since 2002/03. The 2004 Final Determination set targets for TWUL to provide solutions for around 10,000 properties by March 2010.

(c) *Serviceability assessment by Ofwat*

TWUL's sewerage infrastructure serviceability was assessed by Ofwat as "marginal" for 2005/06. An action plan has been developed and agreed with Ofwat to restore infrastructure serviceability to "stable" by the end of the AMP4 Period. TWUL's sewerage non-infrastructure serviceability assessment for 2005/06 was "deteriorating", which TWUL does not expect Ofwat to change for 2006/07. See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" for a description of how Ofwat assesses serviceability.

Discharges of Sewage into the Tidal River Thames

During periods of heavy rainfall, discharges of untreated storm sewage into the tidal River Thames come from certain of TWUL's sewage treatment works and from numerous overflow points on London's combined sewer system. TWUL has a twin-track approach to addressing this concern, as set out below:

(a) *Thames Tideway*

A study group reporting in November 2005 (whose members included the EA) concluded that 36 out of 57 combined sewer overflows reported on were "unsatisfactory" in terms of frequency of discharge and/or environmental impact.

The preferred solution of that study group was a 35-kilometre long storage and transfer tunnel to run beneath the River Thames from Hammersmith in west London which would convey the discharge from the 36 unsatisfactory combined sewer overflows for collection and treatment at the Beckton sewage treatment works in east London, where a plant could be built to handle the storm flows (the "**Tideway Tunnel Project**").

TWUL estimates that the cost of the Tideway Tunnel Project will be in excess of £2 billion and is expected to be completed in 2020. In April 2007, the Minister of State for Climate Change and Environment (the "**Minister**") wrote to TWUL setting out his opinion of the Tideway Tunnel Project. The Minister requested that TWUL makes a provision for the design, construction and maintenance of facilities necessary to connect Beckton and Crossness sewage treatment works which: (i) involves a full-length storage tunnel with additional secondary treatment at Beckton sewage treatment works; (ii) meets the requirements of the 1994 Urban Waste Water Treatment (England and Wales) Regulations; (iii) complies with such discharge consent conditions as will be set by the EA; and (iv) limits overflow discharges at Abbey Mills pumping station as soon as possible.

The Minister recognised that further detailed work needs to be done involving major planning, regeneration, funding and financing considerations and applications. TWUL is progressing this with the relevant stakeholders, in particular DEFRA, Ofwat and the EA.

Funding the Tideway Tunnel Project is the subject of ongoing discussion by TWUL with the Government and Ofwat, which recognises Ofwat's responsibilities under the Licence to ensure that TWUL is able to finance the proper carrying out of its functions. However, any funding requirement from TWUL could, subject to agreement between TWUL and Ofwat, be met in whole or in part either through factoring the required capital expenditure into future Periodic Reviews by Ofwat, or, depending on the costs and their timing, TWUL making an application to Ofwat for an IDOK if the cost threshold is met. For an outline description of both procedures, please refer to Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

(b) *Other works*

Work to upgrade Beckton, Crossness and Mogden, London's three principal sewage treatment works, has been funded for the AMP4 Period, with completion of these large schemes planned in the AMP Period relating to AMP5. The costs of these upgrades (approximately £400 million) will be borne in aggregate across the AMP Periods for AMP4 and AMP5. It is expected that these upgrades will serve to reduce the potential for storm discharges of partially treated or untreated sewage into the River Thames from the sewage treatment works.

Transfer of Private Sewers

The Government announced its intention to proceed with the transfer of private sewers to sewerage undertakers (including TWUL) under the Water Act. The Government also confirmed that the costs associated with the transfer and ongoing operation and maintenance of the transferred private sewers will be reflected in the next Periodic Review; it is currently proposed that an instantaneous transfer is the best way to effect the change in ownership. The timeline for such transfer involves a three-month public consultation period (likely to conclude by autumn 2007), development of regulations covering the transfer schemes in 2008 (with debate in the Houses of Parliament) followed by Periodic Review submissions in 2009 and finally the transfer of ownership taking place in 2010.

TWUL intends to discuss with Ofwat a suitable cost base for the operation and maintenance of the transferred private sewers and, in particular, the inclusion of these in the next Periodic Review. In the

event that the actual cost of operation significantly differs from pre-agreed estimates, TWUL anticipates that Ofwat will allow the opportunity to adjust the amounts reflected in the next Periodic Review upwards or downwards.

Sewage Treatment and Compliance with Discharge Consents

All sewage collected in the sewerage system is directed to sewage treatment works for treatment, the purpose of which is to reduce the polluting impact of incoming sewage in order to comply with the terms of the relevant discharge consents. TWUL's performance in relation to compliance with discharge consents is now improving as the benefits of the action plan agreed with Ofwat (referred to in "*Ofwat Performance Measures*" under "*Serviceability assessment by Ofwat*" above) begin to materialise. TWUL undertakes various measures in respect of pollution reduction and quality control.

Customer Charges

Charges for water supply and wastewater services are calculated separately based on the average costs of providing each service for each class of customer. Customers with unmetered supplies are billed primarily in advance on an annual basis, with payment being annually, semi-annually or by instalments. For supplies of metered water, non-domestic customers are billed periodically, depending on the size of their consumption, and domestic customers are normally billed semi-annually, in most cases in arrear.

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

As set out in the section above entitled "*Regulation and Licence*", in the 2004 Final Determination certain price increases were permitted throughout the AMP4 Period. Separate charges are made for water supply and sewerage services, and the combined average water supply and sewerage services bill for both metered and unmetered domestic customers during the 2006/07 billing period was approximately £275 for the year.

Metering Customers

Metered charges are principally based on the volume of water supplied. TWUL has placed metered charge bases on all new properties, those properties which have been converted into flats since 1989, and is also entitled to place metered charges on domestic 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 domestic customers can opt to have a meter fitted, where practicable, without incurring a charge. Despite these initiatives, TWUL believes the majority of domestic customers will remain on an unmetered charge basis for the foreseeable future.

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

Bad Debts

Following the introduction of the Water Industry Act in 1999, regulated water and wastewater companies were barred from disconnecting residential customers from their water supply for failure to pay bills. Industrial and commercial customers, however, are subject to a number of actions, including disconnection where persistent failure to settle charges occurs. TWUL, through the use of a dedicated billing call centre, contacts customers who are in arrears and arranges payment plans wherever possible. Total household outstanding debt as a percentage of total household billings for the current year as reported in the 2007 June Return was 12.3 per cent., compared to the most recently published industry average in England and Wales of 16 per cent. in 2005/06.

Guaranteed Standards Scheme and Non-Financial Data Integrity

TWUL is currently in discussions with Ofwat regarding two apparent breaches and/or failures to comply with its obligations as a Regulated Company:

(a) *Guaranteed Standards Scheme*

The guaranteed standards scheme (the "GSS") requires undertakers to make compensatory payments to customers if the relevant undertaker fails to meet certain standards of service. TWUL has two ongoing processes in relation to the GSS:

(i) Payments to customers by TWUL

In January 2006, TWUL alerted Ofwat to irregularities it had discovered in its process for paying compensation to its customers as prescribed by the GSS. Ofwat and TWUL jointly appointed Ernst & Young LLP to undertake an independent investigation into the way in which TWUL reports customer service performance measures, and why compensation payments payable to some customers under the statutory GSS had not been paid and others had been paid in error. TWUL has co-operated fully with this investigation. The investigation has covered the six-year period from 2000/01 to 2005/06 and is now complete.

TWUL has confirmed to Ofwat that it will pay in full any compensation which is found by the investigation to be due to customers. In addition, if TWUL benefits from the irregularities in terms of the Periodic Review, it will adjust future prices to its customers. TWUL is currently engaged in making these payments to customers. TWUL will also provide Ofwat with a written statement, confirming that it has adequate systems of planning and internal controls to fulfil its functions and obligations as a Regulated Company.

Around 100,000 cases have been confirmed where TWUL omitted to pay compensation that was due under the terms of the GSS for service failures, mainly associated with interruptions to water supplies. The payments were missed due to poor controls surrounding the company's GSS procedures. No evidence of deliberate mis-reporting was found by the investigation.

In total, TWUL proposes to return around £5.7 million to customers as a result of the payment failures, comprising £4.3 million of mandatory payments and late payment penalties and £1.4 million of discretionary and goodwill payments and interest. Further investigations are ongoing to confirm some remaining customer details but the final compensation amounts are not expected to differ materially from the current estimates. Compensation payments to customers affected have started and the compensation process is expected to be completed in autumn 2007. Ernst & Young LLP will audit the payment process on behalf of Ofwat.

(ii) Ofwat response

On 19 July 2006, Ofwat issued a notice of intention to fine TWUL under section 22A of the WIA for failure to comply with its obligations under the GSS, for the period from 20 July 2005 to the date of such notice (the "Notice Period"). The notice imposes a nominal fine of £1 on TWUL until it provides Ofwat with a final figure of missed compensation payments, and the investigations into its customer service performance have been concluded identifying the extent to which any information provided may not have been reliable, accurate or complete. This procedure is designed to preserve Ofwat's ability to impose a financial penalty, pending completion of the investigation. Under section 22C of the WIA, Ofwat can only impose financial penalties for performance failures which occur in the preceding 12 months of the issue of a penalty notice or the issue of a statutory request for information. Ernst & Young LLP's independent investigation has confirmed that around 8,100 GSS payments were

missed during the Notice Period. The value of these payments is approximately £0.47 million (including mandatory amounts and penalties).

Ofwat is currently considering the findings from the Ernst & Young LLP investigation together with TWUL's response to the failures.

(b) *Non-financial Data Integrity*

Ofwat is also considering whether TWUL has or may have contravened Licence Conditions J and/or M by providing Ofwat with information which is not reliable, accurate or complete in relation to customer services (including compliance with the GSS regulations when submitting its 2005 June Return). In the 2005 June Return, the Reporter highlighted concerns around the integrity of certain regulatory data.

In 2006, Ernst & Young LLP undertook a detailed investigation into non-financial data integrity alongside the work being undertaken on the GSS investigation for Ofwat. This detailed review was completed in late 2006 and found material compliance with Ofwat reporting requirements. Poor definition and control of reporting processes were however found in some cases. TWUL has accepted the findings and recommendations and has developed and implemented remedial action plans. All information from the review has been shared with Ofwat.

Ofwat has requested documentation pertaining to customer services information as described in its notice to TWUL under section 203(2) of the WIA which was served on 7 June 2006. TWUL has cooperated fully with this request. No conclusion has yet been reached by Ofwat as to whether there has been a breach of TWUL's obligations relating to the provision of regulatory information.

Any penalty which may be imposed in respect of each notified failure and/or breach as set out in paragraphs (a) and (b) above may not exceed 10 per cent. of TWUL's Appointed Business turnover, determined in accordance with the Water Industry (Determination of Turnover for Penalties) Order 2005 (SI 2005 No. 477).

Outsourcing

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

TWUL also outsources a small amount of its "back-office" services, including payroll and IT support. These arrangements are typically a reflection of Good Industry Practice and represent a relatively minor proportion of TWUL's operating costs.

TWUL has controls and processes in place to ensure appropriate risk assessment and management is applied when entering into outsourcing contracts and in selecting partners, and also to ensure that transfer pricing rules are properly observed.

Insurance and Risk Management

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

Pensions

The majority of employees in TWUL participate in the Thames Water Pension Scheme (the "TWPS") or the Thames Water Mirror Image Pension Scheme (the "TWMIPS"), which are funded by both employer and employee contributions. These schemes are "defined benefit" schemes. The assets are

held in trust funds which are administered separately from the assets of the employers participating in the schemes. The Financial Reporting Standard 17 (Retirement Benefits) ("**FRS 17**") basis surplus at 31 March 2007, for all of the Thames Water Group's defined benefit pension schemes, totalled £11.1 million net of deferred tax. That net surplus reflected a deficit in the TWPS of £26.2 million and a surplus in the TWMIPS of £37.3 million. As the two schemes are separate, a surplus in one scheme cannot be set off against a deficit in the other.

The latest full actuarial valuation was undertaken as at December 2004. This valuation was updated at 31 March 2007 using revised assumptions that are consistent with the requirements of FRS 17. The next full actuarial valuation is due to be carried out as at 31 December 2007. The Thames Water Group increased pension contribution rates to the TWPS in 2007 as a result of actuarial advice. Further increases in contributions may be required to these schemes following the next full actuarial valuation; whereas historically the employers have had control over their contributions to the schemes, under the Pensions Act 2004, contributions will need to be agreed between employer and trustees, with the UK Pensions Regulator acting as final arbiter in the event of dispute.

The TWMIPS is closed to new members while the TWPS is still open to new members. The pension arrangements are of the group "multi-employer scheme" nature, such that TWUL's pension scheme assets and liabilities are included with those of other companies in the Thames Water Group. TWUL makes the vast majority of the contributions into the schemes.

For additional information regarding TWUL's pension commitments and the effects they would have on, *inter alia*, TWUL's net assets and profit and loss reserve, see the audited financial statements of TWUL at Appendix C (*Independent Auditors' Report and Financial Statements of TWUL*) of this Prospectus under "*Notes to the Financial Statements for the period ended 31 March 2007– Note 24*" and the section of this Chapter entitled "*Ring-fencing and the TWU Financing Group –Ongoing Trading Relationships with other Thames Water Group companies – Pension Scheme*".

Social and Environmental Activities

TWUL regards social and environmental issues as being key considerations for its business. A board committee, supported by a specialist team responsible for environment and corporate responsibility, oversees TWUL's improvement programme. This is developed following dialogue with stakeholders and assessments of the materiality of social and environmental issues. TWUL published an externally verified performance report each year.

Litigation

Other than as set out in the sections "*Guaranteed Standards Scheme*" and "*Non-Financial Data Integrity*" above, no member of TWUL is or has been involved in, nor, so far as TWUL 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, significant effects on the financial position or profitability of TWUL. See the sections "*Guaranteed Standards Scheme*" and "*Non-Financial Data Integrity*" above for details of the maximum quantum of any potential penalty in relation to the Guaranteed Standards Scheme and non-financial data integrity.

RING-FENCING AND THE TWU FINANCING GROUP

As part of its obligations as a Regulated Company, TWUL is subject to certain ring-fencing restrictions under its current Licence. On 31 May 2007, following the conclusion of a public consultation process, Ofwat announced in a position paper entitled "*The completed acquisition of Thames Water Holdings plc by Kemble Water Limited*" (the "**Position Paper**") its intention to strengthen the regulatory ring-fencing for TWUL through the incorporation into the Licence of some additional conditions. See the section "*Regulatory Ringfencing*" below, which sets out both the current Licence provisions and the additional conditions to be contained in the amended Licence. On 20 July 2007 Ofwat published formal notice (under section 13 of the WIA) of its intention to modify TWUL's Licence in accordance with the Position Paper. The modifications are expected to be incorporated formally into TWUL's Licence shortly after the Initial Issue Date.

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

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

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

Regulatory Ring-fencing

Regulatory ring-fencing is common, in differing degrees, to each of the Regulated Companies in England and Wales pursuant to their respective licences. Under Licence Condition F, as supplemented by RAG 5, TWUL must ensure that transactions between it and its associated companies in the Thames Water Group are on an arm's length basis, to prevent cross-subsidisation of activities. Failure to comply with RAG 5 may in certain circumstances give rise to a breach of the Licence and possibly the Competition Act 1998 as described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*". Under Licence Condition K, TWUL must ensure at all times, so far as reasonably practicable, that if a Special Administration Order was made in respect of it, TWUL would have available to it sufficient rights and assets (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purposes of such order could be achieved. See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Special Administration Orders*".

Current ring-fencing provisions in TWUL's Licence

The existing ring-fencing provisions contained in TWUL's Licence are broadly similar to those contained in the licences of all other Regulated Companies. The most important provisions are:

- (a) **Transactions between TWUL and its associated companies:** Any transaction between TWUL and its associated companies (being its subsidiaries and any affiliated companies) must be conducted at arm's length, such that there is no cross-subsidy of the associated company by TWUL (or vice versa).
- (b) **Limits on the transfer of certain assets to associated companies:** Save with the express consent of Ofwat, TWUL is not permitted to transfer certain rights or assets (being those which a Special Administrator would require if a Special Administration Order were made in order to operate the Appointed Business) to an associated company.
- (c) **Restrictions on other transactions:** Save with the express consent of Ofwat, TWUL must not: (i) give any guarantee of any liability of any associated company; (ii) make to any associated company a payment; or (iii) enter into an agreement or incur a commitment incorporating a cross default obligation (whether with an associated company or otherwise). There are limited exceptions relating to an existing obligation involving TWUL.
- (d) **Restrictions on Dividend Payments:** TWUL is required to only pay dividends in accordance with a policy that complies with the following principles: (i) such payments will not impair the ability to finance its regulated activities; and (ii) the payment of such dividends is to reward efficiency and the management of economic risk.
- (e) **Adequate Resources:** TWUL is required at all times to act in a manner "best calculated" to ensure that it has adequate financial resources and facilities and also management resources to carry out its regulated activities (including necessary investment programmes). The directors of TWUL are required to certify on an annual basis that this requirement will continue to be met for the subsequent 12 month period. The basis on which such a view is formed must also

be disclosed to Ofwat. As soon as the directors become aware of a reason why TWUL cannot be expected to comply with this obligation, they are to file a report to this effect to Ofwat in accordance with the provisions of its Licence.

- (f) **Conducting the Appointed Business of TWUL:** TWUL (and its directors) is required to operate the Appointed Business as though it were substantially TWUL's sole business and TWUL was a separate public limited company. In particular, TWUL should:
- (i) have an independent Board which will act independently of the parent company/controlling shareholders and exclusively in the interests of TWUL;
 - (ii) have not less than three independent non-executive directors, who shall be persons of good standing with relevant experience and who shall collectively have connections with and knowledge of the areas within which TWUL operates and an understanding of TWUL's customers' interests and how these can be respected and protected;
 - (iii) ensure that all directors disclose any conflicts of interest both to TWUL and Ofwat, and that TWUL's articles of association prohibit a director from voting in any matter in which he has an interest;
 - (iv) ensure that, where a potential conflict between TWUL and its corporate group arises, TWUL and its board of directors has exclusive regard to TWUL's interests as a regulated water and sewerage undertaker;
 - (v) notify Ofwat of all changes in board membership and their responsibilities;
 - (vi) adopt a dividend policy to be adopted by the Board (as defined below) as outlined above; and
 - (vii) comply with the FSA's Code of Best Practice required by the Listing Rules.
- (g) **Publishing of financial information:** TWUL is to publish information about its annual and interim financial results in accordance with the Listing Rules, even though it is not listed.
- (h) **Maintenance of a bond listed on the London Stock Exchange:** TWUL is required to maintain a bond issuance and shall use all reasonable endeavours to retain its listing on the London Stock Exchange.
- (i) **Maintenance of an investment grade credit rating:** TWUL is currently obliged to use all reasonable endeavours to ensure that it (or any associated company as issuer of corporate debt on its behalf) maintains at all times an investment grade credit rating in relation to its corporate debt. This requirement is in the process of being modified, as further described below.

Modifications to TWUL's Licence

The Position Paper set out the following additional conditions to be incorporated into TWUL's Licence:

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

- (b) **Investment grade credit rating:** Ofwat intends to amend the Licence so that TWUL will be required to maintain an investment grade issuer credit rating. The issuer rating would 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 rating would act as an early signal that the ability of the Appointed Business to raise future finance is at risk.
- (c) **Cash lock-up:** a cash lock-up provision will be introduced into Licence Condition F which will prohibit, subject to certain limited exceptions, without the regulator's prior consent, the transfer of cash or other assets to an associated company when TWUL: (i) no longer holds an investment grade rating; or (ii) holds a rating at the minimum investment grade level and that rating has been put under review for possible downgrade or is assigned a negative outlook. Ofwat considers that such a provision has the benefit of transparency and of requiring immediate remedial action should the circumstances triggering it arise.

The Position Paper also sets out Ofwat's intention to modify Licence Condition P which relates to undertakings by parent companies. The amended Licence Condition P requires TWUL to secure legally enforceable undertakings from its Ultimate Controller and, when such Ultimate Controller is not the UK holding company, from its UK holding company, that they (and each of their subsidiaries (other than TWUL and its subsidiaries)), will: (i) give TWUL all such information as may be necessary to enable TWUL to comply with the Licence; (ii) refrain from any action which might cause TWUL to breach any of its obligations under the WIA or the Licence; and (iii) ensure that the Board of TWUL contained not less than three independent non-executive directors, who must be persons of standing with relevant experience and who collectively have connections with and knowledge of the areas within which TWUL provides water and wastewater services and an understanding of the interests of the customers of TWUL and how these can be respected and protected. Under Licence Condition P, TWUL must inform Ofwat immediately in writing if it becomes aware that the undertaking has ceased to be legally enforceable, or that there has been any breach of its terms. TWUL must not, except with the written consent of Ofwat, enter (directly or indirectly) into any contract or arrangement with its Ultimate Controller or any associated company (other than subsidiaries of TWUL) at a time when no such undertaking exists or there is an unremedied breach of such undertaking.

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

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

Structural Ring-fencing

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

Management Compensation

Since the acquisition of the Thames Water Group by the Kemble Consortium, a new remuneration policy has been implemented at TWUL, linking incentives to the long-term regulatory performance of the business. Executive directors and senior managers participate in an annual bonus scheme, which is

measured against a combination of regulatory and individual objectives. The regulatory objectives are based on the company's performance against Ofwat targets as measured in the June Return for the relevant year. A long-term incentive plan is currently being devised, which will form a component of the annual bonus scheme.

Security and Covenant Packages

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

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

Business Separation

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

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

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

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

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

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

Ongoing Trading Relationships with Other Thames Water Group Companies

Pension Scheme

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

notional or accounting allocation of assets and liabilities of the pension schemes between TWUL and the other Thames Water Group companies in the schemes. These measures are intended to minimise the risk of any cross-subsidy within the schemes between TWUL and other Thames Water Group companies.

Intellectual Property Rights ("Intellectual Property")

TWUL has historically organised its Intellectual Property requirements in conjunction with the Thames Water Group. However, TWUL has recently undertaken a review of patents, trademarks and licences held by it, the result being that, as at the date of this Prospectus TWUL only holds Intellectual Property licences that are specific to the operation of the Appointed Business. In terms of Intellectual Property Rights owned by TWUL, some of these are licensed to third parties. Furthermore, some of the patents in relation to water pipe inspection vehicles are held on a joint basis with other water undertakers. These patents are currently under review, which may result in TWUL obtaining sole ownership of them or otherwise disposing of its rights depending on the business needs of TWUL.

TWUL does not own any Intellectual Property, except as set out above and with respect to Intellectual Property created within TWUL. Save for software licences, the operation of the Appointed Business is not dependent on any Intellectual Property licences from third parties.

The TWU Financing Group

TWUL

Company Details

TWUL is a private limited company which was incorporated in England and Wales on 1 April 1989 under the Companies Act with registered number 2366661. The registered office and headquarters of TWUL are at Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB. TWUL's authorised and issued share capital is £1,029,050,000 divided into 1,029,050,000 ordinary shares of £1 each. All ordinary shares have been issued and have been fully paid-up. TWUL is a wholly-owned subsidiary of TWH. As at the date of this Prospectus, TWH is the beneficial owner of the entire issued share capital of TWUL and as close as practicable to the Initial Issue Date, it is anticipated that TWH will become legally entitled to the same. The business address of the directors of TWUL is Clearwater Court, Vastern Road, Reading, Berkshire RG1 8DB, and the telephone number is +44 (0) 118 373 8000.

The auditors of TWUL are PricewaterhouseCoopers LLP, chartered accountants. The company secretary of TWUL is Joel Hanson.

Directors of TWUL and Corporate Governance

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

The composition of the Board is influenced by the requirements of the Licence and Ofwat's recommendations as set out in the Position Paper referred to in the section "*Regulatory Ring-fencing*" above. Specifically, the Licence requires TWUL to maintain at least three independent non-executive directors on the Board while Ofwat has required TWUL to maintain adequate executive director representatives. The Position Paper confirmed that Ofwat had raised no objection to the procedures in place for the appointment of three independent non-executive directors. In addition, it confirmed that Ofwat has accepted and recommended TWUL's proposal to replace three Kemble Consortium-appointed non-executive directors with three executive directors, thus ensuring that the Board has executive representation. Consequently on 24 May 2007, the three executive directors referred to below were appointed to the Board. At the same time, two Kemble Consortium-appointed non-executive directors resigned from the Board, whilst a third non-executive director is expected to resign

in November 2007. Finally, the Position Paper acknowledged the proposal (although did not require) that TWUL designate a non-executive director as the Board contact for the Consumer Council for Water ("CCW"); on 24 May 2007 TWUL made such a designation as set out below.

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

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

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

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

Directors of TWUL

Non-Executive Chairman

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

Executive Directors

Chief Executive Officer

David Owens joined TWUL in December 2006 as chief executive officer. Prior to this he joined Macquarie Bank Limited in early 2006 and led the business strategy team working on the bid for the Thames Water Group. He brings extensive experience in senior management and was previously founding chief executive officer of the Eastern Electricity/London Electricity joint venture, 24Seven Utility Services, from 2000 to 2003. The joint venture was responsible for operating and maintaining approximately 25 per cent. of the UK's power distribution network, serving a population of approximately 20 million.

Chief Financial Officer

As at the date of this Prospectus Simon Batey is the chief financial officer (and a director of) TWUL. Simon Batey joined TWUL in August 2006 as chief financial officer. He was previously group finance director of United Utilities plc, a position he occupied since 2000. Prior to that he was the group finance director of AMEC plc from 1992. He is a non-executive director of Arriva plc. Simon Batey will cease to be a director and the chief financial officer of TWUL on 31 August 2007 (or the Initial Issue Date, if this occurs after 31 August 2007).

With effect from 1 September 2007 (or the Initial Issue Date, if this occurs after 1 September 2007), Mark Braithwaite will become a director of TWUL and succeed Simon Batey as chief financial officer

of TWUL. He was finance director of the customer and energy divisions for EDF Energy plc. He is an associate of the Institute of Chartered Accountants in England and Wales and a member of the Association of Corporate Treasurers.

Chief Operating Officer

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

Non-executive Directors

Peter Antolik became a non-executive director of TWUL in December 2006. He was appointed the interim director of Regulation and Strategy in February 2007, before being appointed to the post permanently in August 2007. He brings extensive experience in regulated utilities and infrastructure funds. He was previously a division director within Macquarie Bank's Investment Banking Group, and a board member of South East Water Limited, Brussels Airport and Wales & West Utilities Limited.

Martin Baggs became a non-executive director of TWUL in December 2006. Until recently he was managing director of South East Water Limited, and he previously served as operations and assets director at Southern Water Services Limited. He managed the divestiture of South East Water Limited from the Macquarie Group. He is currently a divisional director of Macquarie Investment Banking Funds and is also a director of Wales & West Utilities Limited.

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

Paul DeSouza (alternate to Christopher Deacon) became an alternate director of TWUL in July 2007. He is a principal in the global infrastructure team at Queensland Investment Company and has extensive experience in infrastructure and utilities. Before joining Queensland Investment Company, he was a director in the infrastructure advisory and lending business of ING Bank in London.

Robert Gregor became a non-executive director of TWUL in December 2006. He is the head of AMP Capital Investors' European Infrastructure investment business and manages the AMP Capital Strategic Infrastructure Trust of Europe.

Graham Matthews became a non-executive director of TWUL in December 2006. He is a director of Access Capital Advisers Pty. Limited in Australia, providing investment advice for superannuation funds and major institutional investors. He joined Access Capital Advisers Pty. Limited following a career in the Australian Federal Treasury and represented Australia at the International Monetary Fund in Washington DC.

Peter Crone (alternate to Graham Matthews) became an alternate director of TWUL in December 2006. He is an associate director at Access Capital Advisers Pty. Limited in Australia, providing investment advice for superannuation funds and major institutional investors. He joined Access Capital Advisers Pty. Limited after working for the Honourable John Howard MP, Prime Minister of Australia, as senior economic adviser. Prior to that he worked in the Australian Federal Treasury.

Antonio Santos became a non-executive director of TWUL in December 2006. He brings extensive experience in infrastructure projects as well as investment in other asset classes. He is a former adviser to the Portuguese government and is currently chairman and chief executive of Finpro, which he founded in 1998.

João Santos (alternate to Antonio Santos) became an alternate director of TWUL in December 2006. He is a director of Finpro, a Portuguese infrastructure fund. He brings extensive experience in infrastructure and utility projects in Europe, Australia, North America and Latin America. Before joining Finpro, he worked at Merrill Lynch & Co. and at Bank of America Securities in London. João

Santos holds an MBA degree from the Darden School of Business Administration (University of Virginia) and a business degree from the Universidade Católica Portuguesa.

Martin Stanley became a director of TWUL in December 2006. He is chief executive officer of the Macquarie European Investment Fund LP and an executive director of Macquarie's Investment Banking Group. He chairs the boards of Energy Power Resources Limited, Arlanda Express, Macquarie Renewable Energy Limited and Wightlink Shipping Limited, and is also a board member of NRE B.V., and was formerly a board member of South East Water Limited and Wales & West Utilities Limited. Before joining Macquarie in July 2004, he was a director of TWU Europe Group plc.

Lincoln Webb became a non-executive director of TWUL in December 2006. He is the vice-president of Private Placements for British Columbia Investment Management Corporation. The Private Placements group has been involved in private equity and infrastructure investments since 1995.

Independent non-executive Directors

Stephen Box became a non-executive director of TWUL in December 2006. He brings extensive experience in financial management. A former finance director of the National Grid plc, and non-executive director of South East Water Limited, he is a director of Michael Page International plc and Wales & West Utilities Limited.

Michael Pavia became a non-executive director of TWUL in December 2006. He brings extensive experience in management of regulated businesses. He was previously group finance director of SEEBOARD Group and chief financial officer of the London Electricity Group. He is currently a non-executive director of British Nuclear Fuels plc, Telecom Plus plc and Salamander plc and the non-executive chairman of WHAM Energy plc.

Willem Smit is a Dutch national with extensive industrial and commercial experience. He became a non-executive director of TWUL in December 2006 and was previously managing director of TXU Europe and commercial director of Eon Benelux. He currently works in private equity and is a director of Ampere Infrastructure Fund and Chairman of Voltere Capital Partners. He is also the independent non-executive director appointed as the Board contact for CCW.

Subsidiaries

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

The Issuer

The Issuer was incorporated in the Cayman Islands on 18 May 2007 as an exempted company with limited liability with registered number MC-187772. The registered office of the Issuer is at c/o M&C Corporate Services Limited, PO Box 309GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands and its telephone number is +44 (0) 118 373 8000.

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

Directors of the Issuer

The directors of the Issuer are Andrew Beaumont and John Chadwick.

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

John Chadwick became a director of each of TWUF and the Issuer in June 2007. He is head of finance for the Thames Water Group, responsible for the management, statutory and regulatory accounting functions. He is a qualified Chartered Secretary (ACIS) and has been employed by the Thames Water Group since 1988, gaining extensive experience in senior finance roles across the regulated utility business.

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

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

The Activities of the Issuer

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

The Issuer is empowered under its memorandum and articles of association to enter into the proposed transaction documents to which it is a party and its directors have authority under the Issuer's articles of association to exercise that power on its behalf.

The Auditors of the Issuer are PricewaterhouseCoopers LLP, chartered accountants.

Appendix E (*Accountants' Report on the Issuer*) contains an Accountants' Report of the Issuer dated the date of this Prospectus.

TWUF

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

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

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

Directors and Company Secretary of TWUF

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

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

The secretary of TWUF is Joel Hanson.

The Activities of TWUF

TWUF has not engaged in any activities other than those incidental to its formation and the authorisation of the issue of the TWUF Bonds. As at 31 March 2007, an aggregate sterling or sterling equivalent value of approximately £2,877.5 million was outstanding in respect of the TWUF Bonds. TWUF has no subsidiaries. TWUF may enter into Hedging Agreements in accordance with the Hedging Policy and will also enter into DSR Liquidity Facilities, the proceeds of which will be on-lent by TWUF to TWUL pursuant to the TWUF/TWUL Loan Agreements.

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

The Auditors of TWUF are PricewaterhouseCoopers LLP, chartered accountants.

TWH

TWH was incorporated in England and Wales under the Companies Act as a limited liability company on 30 March 2007 with registered number 6195202. The registered office of TWH is at Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB and its telephone number is +44 (0) 118 373 8000.

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

Directors and Company Secretary of TWH

The directors of TWH are Sir Peter Mason KBE, Peter Antolik, Martin Baggs, Christopher Deacon, Paul DeSouza (as alternate to Christopher Deacon), Peter Dyer, Robert Gregor, Charles Lynam, Graham Matthews, Peter Crone (as alternate to Graham Matthews), Antonio Santos, João Santos (as alternate to Antonio Santos), Martin Stanley and Lincoln Webb and their principal activities are set out in "*TWUL*" under "*Directors of TWUL and Corporate Governance*" above, with the exception of Peter Dyer and Charles Lynam.

Peter Dyer became a director of TWH in June 2007. He is a director of the Macquarie European Infrastructure Plc and has extensive experience in both infrastructure and engineering projects. As a director of Trafalgar House Corporate Development Limited, he was responsible for the development of its UK-based road projects, including the Birmingham Northern Relief Road and the A1-M1 shadow toll road. Before joining Macquarie in 1981, he worked for Imperial Chemical Industries plc.

Charles Lynam became a director of TWH in June 2007. He is a divisional director of Macquarie's Investment Banking Funds and has extensive experience in post-merger management and integration. Before joining Macquarie's Business Improvement & Strategy Division in 2004, he managed McKinsey & Company's Post-Merger Management practice and acted as a strategy consultant for Macquarie.

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

The company secretary of TWH is Joel Hanson.

The Activities of TWH

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

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

TWH is empowered under its memorandum and articles of association to enter into the proposed transaction documents to which it is a party and its directors have authority under TWH's articles of association to exercise that power on its behalf.

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

The Auditors of TWH are PricewaterhouseCoopers LLP, chartered accountants.

Appendix D (*Accountants' Report on TWH*) contains an Accountants' Report of TWH dated the date of this Prospectus.

CHAPTER 5 RISK FACTORS

The following sets out certain aspects of the Programme documentation and the activities of the TWU Financing Group about which prospective Bondholders should be aware. The occurrence of any of the events described below could have a material adverse impact on the business, financial condition or results of operations of the Issuer, TWUL or the other Obligors or their ability to meet their obligations (including the payment of principal and interest) under the Bonds.

This section is not intended to be exhaustive and prospective Bondholders should read the detailed information set out elsewhere in this document prior to making any investment decision. Further, any prospective Bondholder should take its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment. Bondholders may lose the value of their entire investment in certain circumstances.

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

Regulatory and Competition Considerations

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

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

Licence

Under the WIA, the Licence Conditions may be modified by Ofwat with the consent of TWUL or without TWUL's consent following a reference to the Competition Commission which concludes that there are effects adverse to the public interest which can be remedied or prevented by modifications. This outcome could also result from a merger or market investigation reference. In addition, the Secretary of State has a power to veto certain proposed modifications agreed by Ofwat and TWUL. Other proposed modifications agreed by Ofwat and TWUL may be vetoed if it appears to the Secretary of State that the modifications should only be made, if at all, after a reference to the Competition Commission. Finally, primary legislation can create powers for the making of modifications by Ofwat without the consent of Regulated Companies. The Water Act (as defined below) provides Ofwat with powers to make unilateral modifications, following consultation with Regulated Companies, to give effect to the new competition arrangements and to provide for the payment of fees to cover the expenses of the new Consumer Council for Water (see also Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Modification of a Licence*"). Any restrictive modification to the Licence could have a material adverse impact on TWUL.

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

The area of appointment of TWUL can also be varied in accordance with an inset appointment (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Termination of a Licence*").

Termination of the Licence

Under the terms of the Licence, TWUL's appointment may be terminated following the giving of notice by the Secretary of State of at least 25 years. The Licence may also be transferred from TWUL at any time following the making of a Special Administration Order. The termination, non-renewal or transfer of the Licence could have a material adverse impact on TWUL and, consequently, on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

If the Secretary of State or Ofwat were to make an appointment or variation replacing TWUL as the regulated water and wastewater 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.

So far, no compulsory licence terminations or Special Administration Orders have been made in connection with any appointed business of any Regulated Company in England and Wales. There is therefore no precedent to indicate how such processes would work in practice and the extent to which creditors' interests would be protected (see paragraphs on "*Security*" and "*Special Administration*" below).

Data inaccuracy and failure to comply with the Guaranteed Standards Scheme

As set out more fully in Chapter 4 "*Description of the TWU Financing Group*", TWUL is currently in discussions with Ofwat as to the accuracy of customer services data supplied to Ofwat. Inaccuracies or systems of internal control being insufficiently rigorous may lead to incorrect decision making, possible damage to the reputation of TWUL and, if Ofwat concludes that this constitutes a breach of TWUL's obligations relating to the provision of regulatory information, the possibility of fines being imposed by Ofwat, each of which could adversely affect TWUL's business, results of operations, profitability or financial condition.

The 2004 Final Determination did not include any specific funding for system upgrades and if any upgrades are required during the AMP4 Period, the resulting expenditure could adversely affect TWUL's business, result of operations, profitability or financial condition.

Also, as more fully set out in Chapter 4 "*Description of the TWU Financing Group*", Ofwat may impose financial penalties on TWUL for (i) any failure to achieve customer service performance standards under the Guaranteed Standards Scheme and (ii) any non-compliance with its Licence in respect of non-financial data integrity for information provided by TWUL to Ofwat. Each such notified penalty may not exceed 10 per cent. of the turnover of the Appointed Business. If such penalty or penalties is/are imposed (and subject to the level of such penalty), it could have an adverse effect on the ability of TWUL to meet its financing obligations.

Competition in the water industry

Ofwat has taken steps to introduce competition into the water supply market via inset appointments and amendments to the Water Act. In relation to inset appointments, Ofwat has recently indicated that there is interest from applicants to serve households as opposed to just commercial customers. Ofwat is currently consulting on one such proposal (not affecting TWUL's Region) and is also currently consulting on further measures to increase competition in water supply (see "*Consultation on market competition in the water and sewerage industries in England and Wales*", published 13 July 2007). This consultation also includes a proposal to introduce competition with respect to the provision of sewerage services. The Water Act 2003 amends the WIA and provides for a new framework for competition in water supply as described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*". To date, seven new entrants have been granted supply licences by Ofwat. TWUL has received two applications for retail supply of water to existing companies. There may be further changes to legislation to introduce additional competition in the water industry in the future. The ability of TWUL's existing qualifying customers to choose to obtain their water supply from a different supplier could adversely affect TWUL's turnover, which could adversely affect TWUL's business, results of operations, profitability or financial condition. However, the new market

is currently limited to customers using in excess of 50 megalitres per annum although Ofwat is presently consulting on the reduction of this threshold. For the period covered by the 2007 June Return, 315 large properties (using more than 50 megalitres per annum) were supplied by TWUL, from which water revenues of £33.4 million (representing approximately 4.8 per cent. of total water revenues as reported in the 2007 June Return for the year ended 31 March 2006) were derived.

The Competition Act contains prohibitions relating to anti-competitive agreements and conduct and powers of investigation and enforcement (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Competition in the Water Industry*"). These powers include powers for Ofwat and the Office of Fair Trading ("**OFT**") to enforce directions in order to bring an infringement to an end and to impose fines of up to 10 per cent. of worldwide group-wide turnover for the business year preceding the finding of the infringement. Also, any agreement which infringes the Competition Act may be void and unenforceable and may give rise to claims for damages from third parties.

TWUL Revenue and Cost Considerations

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

Periodic Review and Interim Determinations

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

Although Ofwat has a duty to act in the manner that it considers best calculated to secure that TWUL is able to finance the proper carrying out of its functions, an adverse price determination, which would adversely affect turnover, profitability and cashflow and consequentially, the ability to maintain an investment grade issuer credit rating in accordance with the Position Paper (as described in Chapter 4 "*Description of the TWU Financing Group*" under "*Ring-fencing and the TWU Financing Group*"), may occur as a result of a number of factors, including an inadequate allowed cost of capital or regulatory assumptions concerning operating expenses and required capital expenditure as well as turnover forecasts proving not to be sufficiently accurate. In addition, unforeseen financial obligations or costs may arise (for example, as a result of ensuring regulatory compliance or changes to legislation or regulatory requirements, some instances of which are provided below) after a Periodic Review which were not taken into account by the DGWS in setting price limits and are consequently not compensated for, which could adversely affect financial performance.

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

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

The following are examples of factors which may give rise to unforeseen financial obligations or costs which may not be compensated for under any Periodic Review of IDOK:

Deviations from Ofwat's projections

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

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

Failure by TWUL to deliver its capital investment programme

The Appointed Business requires significant capital expenditure for additions to, or replacement of, plant and equipment for its water supply and sewerage facilities and networks. The price limits set by Ofwat every five years take into account the level of capital expenditure expected to be incurred during the relevant Periodic Review Period and the associated funding costs and operating costs (although, as explained above, while the DGWS considered all the costs envisaged by TWUL in its strategic business plan, it came to a different view from that of TWUL for the 2004 Final Determination).

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

Leakage reduction

The Section 19 Leakage Undertaking (as described in Chapter 4 "*Description of the TWU Financing Group*") commits TWUL to take certain actions to, *inter alia*, reduce leakage and increase security of water supplies to its customers. The additional costs of this work will be met by TWUL and will not be included in TWUL's RCV. The impact of the planned work on levels of leakage cannot be guaranteed, and consequently, TWUL may be required to make additional unrecoverable operational or capital expenditure to ensure that its targets are met. Satisfying the requirement to meet leakage and other targets may therefore adversely affect TWUL's business, results of operations, profitability or financial condition.

Ofwat asset serviceability

TWUL has agreed action plans to restore "stable" serviceability in two classes of assets assessed by Ofwat as at the date of this Prospectus as having "deteriorating" serviceability (water infrastructure and sewerage non-infrastructure) and one class of assets assessed as at the date of this Prospectus as having "marginal" serviceability (sewerage infrastructure), although when the action plan was agreed it was assessed as "deteriorating". See Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales - Service Standards*" for a description of how Ofwat makes its annual assessments.

Price limits set for the AMP4 Period have included funding for considerably more investment by TWUL in comparison with previous periods to address issues of serviceability. Any investment above the level allowed in the 2004 Final Determination which is necessary to meet the requirement to move to "stable" serviceability for any of these asset categories could adversely affect TWUL's business, results of operations, profitability or financial condition.

Failure to deliver "stable" serviceability according to the timetable set out in the 2004 Final Determination for any reason, including because of delays or because TWUL's assessment of "stable" serviceability differs from that of Ofwat, could therefore lead to an adverse adjustment in the price determination at the 2009 Periodic Review and/or enforcement action, either of which could adversely affect TWUL's business, results of operations, profitability or financial condition.

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

Operating cost savings to be achieved during the AMP4 Period are implicit in the Periodic Review. To assist the achievement of these operating cost savings, efficiency programmes are underway. If the operating cost savings are not achieved, or the efficiency programmes are not delivered, then TWUL's profitability will suffer. Similarly, if operational performance were to deteriorate, this deterioration may be reflected by less favourable outcomes in future Periodic Reviews which could cause TWUL's profitability to suffer.

Sewer flooding

TWUL's combined sewerage systems (as described more fully in Chapter 4 "*Description of the TWU Financing Group*") can, during prolonged heavy rainfall, reach their hydraulic capacity resulting in flooding. As it is not possible to forecast the occurrence of sewer flooding and its effects sufficiently far in advance, forward planning and the making of full and reliable provision for the effects, or the alleviation of the risk, of sewer flooding is difficult. The financial costs of measures required to deal with sewer flooding, or measures designed to alleviate the risk of sewer flooding to properties which become at risk, may therefore not be taken into account fully in a Periodic Review, which could be significant and could adversely affect TWUL's business, results of operations, profitability or financial condition.

Intermittent discharges into the tidal River Thames

As set out in Chapter 4 "*Description of the TWU Financing Group*", TWUL is currently in discussions with the Government and Ofwat as to the requirement to build the Tideway Tunnel Project and the associated funding. The Tideway Tunnel Project is expected to cost in excess of £2 billion and completion is anticipated to be in 2020. Ofwat has a legal obligation to ensure that an efficient Regulated Company is able to finance its functions - it is currently reviewing the appropriate means for financing the delivery of the Tideway Tunnel Project. It is possible that TWUL may be required to deliver it through the regulatory funding framework. The Tideway Tunnel Project is expected to have a risk profile which may differ significantly from the typical capital projects routinely carried out by Regulated Companies, in terms of both the scale and nature of the project risk. If TWUL is required to deliver the Tideway Tunnel Project, some of these financial risks may be passed on to construction partners (through contractual mechanisms) and customers (through regulatory pricing mechanisms). If, however, through the delivery of the Tideway Tunnel Project, TWUL is required to incur additional unfunded expenditure or if the funding provided via the regulatory funding framework does not cover all the costs incurred by TWUL, this could adversely affect TWUL's business, results of operations, profitability or financial condition.

Non-recovery of customer debt

Non-recovery of debt is a risk to TWUL and may cause TWUL's profitability to suffer. This risk is exacerbated by the WIA, which prohibits the disconnection for non-payment of a water supply for domestic use in any premises and the limiting of a supply with the intention of enforcing payment for domestic use in any premises, although allowance is made by Ofwat in the price limits at each Periodic Review for a proportion of debt deemed to be irrecoverable. To achieve a re-setting of its price limits through an IDOK during a Periodic Review Period when changes in the regulatory assumptions as to

the level of non-recoverable debt are material, TWUL would need to demonstrate a proven link between increasing levels of non-recoverable debt and the prohibition on disconnection. Increased prices may lead to increases in non-recoverable debt. TWUL may therefore suffer losses from its inability to recover its debts fully, which could adversely affect TWUL's business, results of operations, profitability or financial condition.

Increases in the price of inputs and/or treatment work rates

Energy prices and the cost of chemicals and other substances used by TWUL in its treatment processes have increased in recent years. TWUL has sought to mitigate the impact of known increases, to the extent that they were not taken into account in the 2004 Final Determination, through efficiency savings built into its business plan. However, further increases in energy prices and/or the cost of other commodities could lead to greater operating costs which could adversely affect TWUL's business, results of operations, profitability or financial condition. The rates charged on TWUL's sewage treatment works increased in 2005 as a result of the regular five yearly rating review conducted by the Government's Rating Agency. Again, TWUL has sought to mitigate the impact of this through efficiency savings, but further increases at the next evaluation could lead to greater operating costs which could adversely affect TWUL's business, results of operations, profitability or financial condition.

Pensions Schemes

TWUL participates in a number of pension schemes as described in Chapter 4 "*Description of the TWU Financing Group - Pensions*". The principal schemes, the TWPS and TWMIPS, are funded defined benefit schemes.

Any increase in contributions required to be made by the Thames Water Group following the next full actuarial valuation may adversely affect TWUL's business, results of operations, profitability or financial condition. If long-term investment returns remain lower than the rate assumed by the actuaries in their valuations, improvements in life expectancy are greater than assumed, interest rates reduce, or the schemes' trustees seek a more prudent approach to funding (in each case leading to deficits or increased deficits in the schemes) the profitability of the group may be further adversely affected and the group required to increase its contributions to eliminate this underfunding.

In the 2004 Final Determination, some allowance was made for anticipated future pensions contributions and a proportion of existing pension scheme deficits are recoverable through the price limits established by Ofwat, but Ofwat may seek not to make such allowances in future Periodic Review Periods. If such deficits were not so recoverable in future, TWUL's business, results of operations, profitability or financial condition could be adversely affected.

Service interruptions to or contamination of water supplies

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

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

which may also adversely affect TWUL's business, results of operations, profitability or financial condition.

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

Water shortages

In the event of water shortages, additional costs may be incurred by TWUL in order to provide emergency reinforcement to supplies in areas of shortage which may adversely affect its business, results of operations, profitability or financial condition. In addition, restrictions on the use or supply of water (including hosepipe bans and Drought Orders) may adversely affect TWUL's turnover and may, in very extreme circumstances requiring an Emergency Drought Order (which have never been experienced by TWUL), lead to significant compensation becoming due to customers because of interruptions to supply, both of which could adversely affect TWUL's business, results of operations, profitability or financial condition.

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

Disruption at key sites or installations

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

Changes in the rate of inflation

TWUL's turnover is linked to the underlying rate of inflation (measured by the Retail Price Index) and as such is subject to fluctuations in line with changes in the rate of inflation. In addition, changes in the rate of inflation are likely to impact on the operating costs and capital expenditure of TWUL and on customers' ability to pay any increased charges.

Catastrophe Risk

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

Although the CTA requires TWUL to maintain insurance (including business interruption insurance) to protect against certain of these risks, the proceeds from such insurance may not be adequate to cover reduced revenues, increased expenses or other losses or liabilities arising from the occurrence of any of the events described above. Moreover, there can be no assurance that such insurance coverage will be

available for some or all of these risks in the future at commercially reasonable rates or at all. (See Chapter 4 "*Description of the TWU Financing Group*" under "*Insurance*").

Certain Legal Considerations

Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, all licences (including TWUL's Licence) restrict a Regulated Company's ability to dispose of Protected Land (as explained in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Protected Land*", below). Accordingly, a licence restricts a Regulated Company's ability to create a charge or mortgage over Protected Land. In the case of TWUL, the Issuer estimates that the vast majority of TWUL's assets by value are tangible property which is Protected Land and cannot therefore be effectively secured. This necessarily affects the ability of TWUL to create a floating charge over the whole or substantially the whole of its business. Furthermore, in any event, there is no right of a floating charge holder under the WIA to block the appointment of a Special Administrator.

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

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

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

The considerations described above do not apply to the fixed and floating charges created under the Security Agreement by TWH, TWUF 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 2002 (the "**Enterprise Act**") or a concentration with a Community dimension for the purposes of the European Merger Regulation, would require consultation with Ofwat and would be reviewable by the OFT or the European Commission.

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

Special Administration

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

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

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

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.

Insolvency Considerations: The Enterprise Act

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

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

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

Environmental Considerations

TWUL's water supply and sewage operations are subject to a number of laws and regulations relating to the protection of the environment and human health governed primarily by the DWI and the EA as described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Drinking Water and Environmental Regulation*". These laws establish, amongst other things, standards for drinking water, abstraction, and the discharge of wastewater and other polluting discharges into the environment, and procedures governing operational development.

It is likely that TWUL and other Regulated Companies will incur significant costs in the future in order to comply with requirements imposed under existing or future environmental laws and regulations (including nature conservation legislation). Although the costs arising from such changes in legal requirements (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Drinking Water and Environmental Regulation*") may, in certain cases, be eligible for the purposes of the interim determination provisions or fall to be considered as part of a Periodic Review, there can be no certainty as to how and whether future environmental laws and regulations will impact the business and financial condition of TWUL and/or the interests of the Bondholders. 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.

TWUL is under a duty to supply water that is wholesome at the time of supply. "Wholesomeness" is defined by reference to standards and other requirements set out in the Water Quality Regulations. Under the WIA, the DWI is required to take enforcement action against TWUL for any breach of quality standards, or of monitoring, treatment, record keeping and/or information requirements of the Water Quality Regulations, unless the breach is trivial or unlikely to recur, or TWUL has taken immediate remedial action, or has submitted a legally binding programme of work in the form of a Section 19 Undertaking to achieve compliance within an acceptable timescale. If there has been such a breach and TWUL does not give a Section 19 Undertaking or fails to comply with its terms, the DWI may make a provisional or final Enforcement Order to secure compliance. In addition, TWUL may be prosecuted and fined if it supplies water that is unfit for human consumption under section 70 of the WIA. Section 19 Undertakings, enforcement action and prosecutions could materially affect the way that TWUL operates, prejudice its reputation and result in the imposition of substantial fines or other costs, each of which could adversely affect TWUL's business, results of operations, profitability or financial position.

Drinking water quality standards may be more rigorously enforced over time and may become more stringent and new drinking water requirements may be introduced (for instance, mandatory fluoridation). Each of these factors could increase TWUL's operating and/or capital costs. These costs may be wholly or partly recoverable through the mechanisms referred to in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" or future Periodic Reviews, but, in the event that such recovery is not possible, such costs could adversely effect TWUL's business, results of operations, profitability or financial position.

Given the nature of TWUL's operations, there is a risk that pollution or drinking water quality incidents may occur. The possible consequences of any such incident include criminal prosecution leading to the imposition of fines on TWUL, civil liability in damages to third parties and/or requirements to clean up or otherwise deal with the effects of contamination and/or operational requirements to upgrade plant and equipment. The imposition of (potentially unlimited) fines, civil liability, clean-up or upgrade costs may materially and adversely affect TWUL's reputation, the

business and financial position of TWUL. Any such incidents may also give rise to breaches of any operational Environmental Permits held by TWUL, which could result in fines and/or termination.

In addition to environmental costs imposed upon TWUL by law or regulation, TWUL may be subject to additional costs resulting from public concern regarding environmental matters. For example, farms that use sludge from TWUL's sewerage operations are increasingly requiring higher levels of treatment of this sludge in response to demands from the buyers of their crops. This, in turn, results in higher capital and operating costs for TWUL.

High Leverage

As of the Initial Issue Date, the TWU Financing Group will have indebtedness that is substantial in relation to its shareholders' equity. As part of the Programme, the TWU Financing Group anticipates issuing new debt to increase the aggregate of Senior Debt of the TWU Financing Group to approximately £5 billion. The TWU Financing Group is expected to be leveraged initially, taking into account retained cash reserves, to approximately 72 per cent. as a percentage of the aggregate of Senior Debt to RCV. If, prior to the Ratio Step Date, the Permitted Unsecured Financial Indebtedness Trigger occurs, the leverage of the TWU Financing Group, taking into account retained cash reserves, may increase to 75 per cent. as a percentage of the aggregate of Senior Debt to RCV. On or following the Ratio Step Date, such leverage of the TWU Financing Group is expected to increase to approximately 85 per cent. as a percentage of the aggregate of Senior Debt to RCV unless the Permitted Unsecured Financial Indebtedness Trigger has not occurred as at the Ratio Step Date in which case and until such time as it has occurred, the leverage may only increase to 82 per cent. as a percentage of the aggregate of Senior Debt to RCV. The ability of TWUL to improve its operating performance and financial results will depend upon economic, financial, competitive, regulatory and other factors beyond its control, including fluctuations in interest rates and general economic conditions in the United Kingdom.

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

Future Financing

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

- (a) finance future capital enhancements to TWUL's asset base;
- (b) on each Interest Payment Date on which principal is required to be repaid and on the maturity date of the relevant Sub-Classes of Bonds, refinance the Bonds; and
- (c) refinance the TWU Bonds and any other debt (including any final RPI payments under an RPI Linked Hedging Agreement and for liquidity or working capital purposes) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Bonds.

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

Issuer and Bond Considerations

Special purpose vehicle Issuer

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

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

Source of payments to Bondholders

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

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

Subordination of the Class B Bonds

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

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

Notwithstanding the subordination of, and credit enhancement provided by, the Class B Bonds to the Class A Wrapped Bonds and Class A Unwrapped Bonds, the Issuer may, subject to certain conditions,

optionally redeem some or all of the Bonds subordinated and providing credit enhancement to other Classes of Bonds.

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

The DSR Liquidity Facilities

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

Rights available to Bondholders

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

Intercreditor Rights of Bondholders

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

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

Financial Guarantor) and the Unwrapped Bonds (other than any Class A FG Covered Bonds) will not be voted as part of the Class A DIG or Class B DIG, as the case may be, in circumstances where the Bond Trustee is unable or unwilling to exercise its discretion. However, prior to a Default Situation, each Secondary Market Guarantor in respect of any Class A FG Covered Bonds will form part of the Class A DIG and will be entitled to vote on behalf of the relevant Class A Unwrapped Bondholders in respect of such Class A FG Covered Bonds.

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

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

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

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

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

Notwithstanding the fact that an application has been made to admit the Bonds to trading on the London Stock Exchange, there is currently no market for the Bonds. There can be no assurance that a secondary market will develop, or, if a secondary market does develop for any of the Bonds, that it will provide the holder of the Bonds with liquidity or that any such liquidity will continue for the life of the Bonds. Consequently, any purchaser of the Bonds must be prepared to hold such Bonds for an indefinite period of time or until final redemption or maturity of the Bonds.

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

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

Although Bonds which are admitted to trading on a regulated market in the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive are required to have a minimum denomination of €50,000 (or, where the Relevant Currency is not euro, its equivalent in the Relevant Currency), it is possible that the Bonds may be traded in the clearing systems in amounts in excess of €50,000 (or its equivalent) that are not integral multiples of €50,000 (or its equivalent). In such a case, should definitive Bonds be required to be issued, a holder who does not have an integral multiple of €50,000 (or its equivalent) in his account with the relevant clearing system at the relevant time may not

receive all of his entitlement in the form of definitive Bonds unless and until such time as his holding becomes an integral multiple of €50,000 (or its equivalent).

Rating of the Bonds

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

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

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

Withholding Tax under the Bonds

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

- (i) arranging for the substitution of another company in an alternative jurisdiction (subject to certain conditions); and, failing this,
- (ii) redeeming all Outstanding Bonds in full.

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

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

EU Savings Directive

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Belgium, Luxembourg and Austria will instead impose a withholding system for a transitional period unless during such period they elect otherwise. A number of third countries and territories including Switzerland have adopted similar measures to the EU Directive.

Change of Law

The structure of the transaction and, among other things, the issue of the Bonds and ratings assigned to the Bonds are based on law (including tax law) and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law and

administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the Initial Issue Date which change might impact on the Bonds and the expected payments of interest and repayment of principal.

European Monetary Union

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

- (i) all amounts payable in respect of the sterling-denominated Bonds may become payable in euro;
- (ii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Bonds or changes in the way those rates are calculated, quoted and published or displayed; and
- (iii) the Issuer may choose to redenominate the Bonds into euro and take additional measures in respect of the Bonds (see Chapter 8 "*The Bonds*" under "*Terms and Conditions of the Bonds*").

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

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

Changes in Financial Reporting Standards

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

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

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

Water and Wastewater Regulation Generally

Background

The current structure of the water and wastewater industry in England and Wales dates from 1989, when the Water Act 1989 was enacted. Before this, there were 10 regional public sector water authorities supplying water and wastewater services and 29 privately-owned statutory water companies supplying water only. Under the Water Act 1989, the functions of the water authorities relating to water supply (except in areas where those functions were carried out through statutory water companies) and wastewater services, together with the majority of the water authorities' property, rights and liabilities, were transferred to 10 companies appointed as water and wastewater undertakers in England and Wales. The industry is now made up of the 10 water and wastewater companies and 12 water only companies which are all subject to the same regulatory regime (together, the "**Regulated Companies**", but so that, unless otherwise expressly stated, references to a "**Regulated Company**" in this Chapter 6 are references to that company in its capacity as a water and wastewater undertaker or, as the case may be, a water undertaker). The provisions of the Water Act 1989 are now contained mainly in the consolidating WIA which itself has been substantially amended by the Water Act 2003. References in this section to statutes are to the WIA unless otherwise stated.

Regulatory Framework

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

The economic regulator for water and wastewater is Ofwat. Ofwat is responsible for, inter alia, setting limits on charges and monitoring and enforcing licence obligations. Regulated Companies are required by their licences to make an annual return to Ofwat (including accounts and financial information) to enable Ofwat to assess their activities and affairs. The two principal quality regulators are the DWI (the DWI is appointed by the Secretary of State for the Environment, Food and Rural Affairs ("**DEFRA**")) and the EA. The DWI's principal task is to ensure that Regulated Companies in England and Wales are fulfilling their statutory requirements under the WIA and the Water Quality Regulations for the supply of wholesome drinking water. The DWI is part of DEFRA and acts as a technical assessor on behalf of the Secretary of State in respect of the quality of drinking water supplies. It carries out annual technical audits of each water company; this includes an assessment (based on information supplied by the company) of the quality of water in each supply zone, arrangements for sampling and analysis, and progress made on achieving compliance with regulatory and EU requirements. The EA was established under the Environment Act 1995 and is responsible, in England and Wales, for the protection and improvement of the environment. Its duties include the regulation of abstractions from, and discharges to, controlled waters. Controlled waters include coastal waters, territorial waters extending three miles from shore, inland freshwaters and groundwater.

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

Ofwat and the Secretary of State

As provided for in the Water Act, the DGWS has been replaced by Ofwat as from 1 April 2006. WSRA has issued a statement to the effect that it shall be referred to as Ofwat. It is a body corporate comprising a chairman, a chief executive, three executive and five non-executive directors. The

present Chairman of Ofwat is Philip Fletcher, who was appointed in January 2006 for a period of five years. Philip Fletcher was previously the DGWS, to which post he was appointed in 2000. Ofwat has therefore taken over all functions and duties previously performed by the DGWS with some additions made by the Water Act.

Each of the Secretary of State and Ofwat has a primary duty under the WIA to exercise and perform its powers and duties under the WIA in the manner it considers best calculated to:

- further the consumer objective;
- secure that the functions of Regulated Companies are properly carried out throughout England and Wales;
- secure that Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions; and
- secure that the activities authorised by the licence of a licensed water supplier (see the section "*The Water Act*" below) and any statutory functions imposed on it are properly carried out.

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

Subject to these primary duties, each of the Secretary of State and Ofwat is required to exercise and perform its powers and duties in the manner it considers best calculated to:

- protect the interests of customers (in particular rural customers) in connection with the fixing and recovery of water and drainage charges, and so that there is no undue preference or discrimination in the fixing of those charges;
- protect the interests of customers of Regulated Companies (and companies connected with them) in respect of non-regulated activities in particular by ensuring that: (i) transactions are carried out at arm's length; and (ii) in relation to their regulated business, Regulated Companies maintain and present accounts in a suitable form and manner;
- protect the interests of customers in connection with the benefits that could be secured for them by the application of the proceeds of disposal by Regulated Companies of Protected Land;
- promote economy and efficiency on the part of Regulated Companies; and
- contribute to the achievement of sustainable development.

There is also a new power for the Secretary of State to issue statutory guidance to Ofwat concerning how Ofwat might contribute to social and environmental policies. There is also a new duty on DEFRA to encourage water conservation and on all public authorities, as defined, to take into account, where relevant, the desirability of conserving water supplied or to be supplied to premises.

Licences

General

Under the WIA, each Regulated Company holds a licence and is regulated through the conditions of such licence as well as the WIA. Each licence specifies the geographic area served by the company and

imposes a number of conditions on the licence holder that relate to limits on charges, information reporting requirements, various codes of practice, and other matters. In addition to the conditions regulating price limits (see the section "*Economic Regulation*" below), each licence also contains conditions regulating infrastructure charges and the making of charges schemes, and imposes prohibitions on undue discrimination and undue preference in charging. Other matters covered by conditions in each licence include: accounts and the provision of accounting information; codes of practice for customers on disconnection and on leakage; levels of service and service targets; "ring-fencing" of assets and restrictions on disposal of land; asset management plans; the provision of information to Ofwat; provision of combined and wholesale water supplies; and payments to customers for supply interruptions because of drought. Further details of TWUL's Licence are provided in Chapter 4 "*Description of the TWU Financing Group*" under "*Ringfencing and the TWU Financing Group*", including an overview of the Licence modifications Ofwat will introduce shortly. Ofwat is responsible for monitoring compliance with licence conditions and, where necessary, enforcing compliance through procedures laid down in the WIA. See the section "*Enforcement Powers*" below.

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

Termination of a Licence

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

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

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

An inset appointment can be granted to a company seeking to provide water and/or wastewater services on an unserved site, or to a large user of water and/or wastewater services within an existing Regulated Company's area, or where the incumbent Regulated Company consents to the variation. The threshold for large user insets has been reduced, from 250 to 50 megalitres of water supplied or likely to be supplied to particular premises in any 12-month period, which has increased the number of large users that are able to qualify for inset appointments. The inset mechanism continues despite the introduction of the new regime for licensing new entrants under the Water Act. New entrants have been able to apply for a water supply licence (see the section "*Special Administration Orders*") since 1 August 2005. To date, seven new entrants have sought and been granted water supply licences, although no customers have yet transferred to any of the new entrants. The new water supply licensing regime is described in more detail in the section "*The Water Act*" below.

Modification of a Licence

Conditions of a licence may be modified in accordance with the procedures laid down in the WIA. Subject to a power of veto by the Secretary of State of certain proposed modifications, Ofwat may modify the conditions in the licence with the consent of the Regulated Company concerned. Before making the modifications, Ofwat must publish the proposed modifications as part of a consultation process, giving third parties the opportunity to make representations and objections which Ofwat must consider. In the absence of consent, the only means by which Ofwat can normally secure a modification is following a modification reference to the Competition Commission. A modification reference may also be required in the event of a direction from the Secretary of State to the effect that, inter alia, in his view, the modifications should only be made, if at all, following a reference to the Competition Commission.

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

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

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

Under the Water Act, Ofwat was also given power to modify the conditions of the licence insofar as it considered it necessary to do so to facilitate the new water supply licensing arrangements (see the section "The Water Act" below), but this power can only be exercised within the first two years of the coming into force of the new provisions. Conditions R and S were introduced using this power following consultation with Regulated Companies and came into effect on 1 September 2005 (with modifications to condition R coming into effect on 1 September 2006).

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

Water Supply

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

Water supplied for domestic purposes or food production purposes must be wholesome at the time of supply, which entails compliance with the Water Supply (Water Quality) Regulations 2000 (the "**Water Quality Regulations**"). In certain circumstances, the standards set in those regulations may be relaxed. Where standards or relaxed standards are not being met, the Secretary of State is under a duty to take enforcement action against the supplier. However, Regulated Companies may submit undertakings or apply for an authorised departure to the Secretary of State detailing steps designed to secure or facilitate compliance with those standards. The Secretary of State is not required to take enforcement action for breaches of the Water Quality Regulations if satisfied with the undertakings, or if satisfied that the breaches are of a trivial nature, or if general duties preclude taking enforcement action. The Secretary of State has stated that, except in certain circumstances, it is unlikely that enforcement action will be taken against Regulated Companies which are complying with the terms of their undertakings. Under the WIA, it is a criminal offence for a Regulated Company to supply water which is unfit for human consumption.

Wastewater Services

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

It is a criminal offence for a person to cause or knowingly permit any poisonous, noxious or polluting matter to enter controlled waters (including most rivers and other inland and coastal waters) other than in accordance with the terms of a discharge consent or with some other lawful authority. The principal prosecuting body is the EA, although third parties also have a right of prosecution.

The terms of discharge consents depend largely on the type of discharge and when the consents were granted. Within the scope of its powers and duties under the WRA, the EA has discretion as to the terms on which discharge consents are granted or existing consents are altered. The disposal of wastewater sludge from wastewater treatment works is also controlled.

Service Standards

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

Regulated Companies are required to report to Ofwat on their performance against certain service standards, particularly service to customers, in respect of their obligations as water undertakers and wastewater undertakers. If they do not meet certain standards under Ofwat's guaranteed standards scheme, they may be required to pay compensation to customers.

Under the Water Act, Regulated Companies have been required from 1 April 2005 to disclose whether or not they link the remuneration of their directors to levels of customer service attained and to give details of how any links affect remuneration.

Enforcement Powers

The general duties of Regulated Companies as water or wastewater undertakers are enforceable by the Secretary of State or Ofwat or both. The conditions of the licence (and other duties) are enforceable by Ofwat alone whilst other duties, including those relating to water quality, are enforceable by the DWI.

Where the Secretary of State 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, 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 more appropriate to make a provisional enforcement order, he may do so. In determining whether a provisional enforcement order should be made, the Secretary of State or Ofwat shall have regard to the extent to which any person is likely to sustain loss or damage as a consequence of such breach before a final enforcement order is made. The Secretary of State or Ofwat will confirm a provisional enforcement order if satisfied that the provision made by the order is needed to ensure compliance with the condition or requirement that is in breach.

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 the contraventions were, or the apprehended contraventions are, of a trivial nature;
- where the company has given, and is complying with, a Section 19 Undertaking to secure or facilitate compliance with the condition or requirement in question; or
- where duties in the WIA preclude the making or confirmation of the order.

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

The Water Act also conferred powers on Ofwat or the Secretary of State to impose financial penalties on Regulated Companies and the new licensees introduced by the Water Act. Ofwat and the Secretary of State have the power to fine such a company up to 10 per cent. of its turnover if it fails to comply with its licence conditions, standards of performance or other obligations. The penalty must also be reasonable in all the circumstances. Ofwat has recently stated its intention to impose a fine of £8.5m on United Utilities for breaches of condition F of its licence. Ofwat has also stated that it intends to fine Severn Trent Water, Southern Water and TWUL in connection with breaches committed by them, but has not yet announced the level of fine. The Water Act also provides for situations where a new licensee has caused or contributed to a breach of a Regulated Company's licence or caused or contributed to a Regulated Company contravening a statutory or other requirement, or where a Regulated Company has caused or contributed to the breach of a new licensee's licence or caused or contributed to the breach of the latter's statutory or other requirements. In those cases, Ofwat may impose an appropriate remedy. A Regulated Company may appeal a penalty order to the court (the "Court"). The Court may cancel or reduce the penalty or extend the time-scale to pay. The requirement to pay the penalty is suspended until the case is determined. A financial penalty may not be imposed under this provision for an infringement if it is more appropriate to proceed under the Competition Act.

Special Administration Orders

The WIA contains provisions enabling the Secretary of State, or Ofwat with the consent of the Secretary of State, to secure the general continuity of water supply and wastewater 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:

- where there has been, or is likely to be, a breach by a Regulated Company of its principal duties to supply water or provide wastewater 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;
- where the Regulated Company is, or is likely to be, unable to pay its debts;
- 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 124 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

- 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 of the existing Regulated Company's licence.

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

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

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

A Special Administrator has extensive powers similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. He is appointed only for the purposes of transferring to one or more different Regulated Companies as much of the business of the Regulated Company as is necessary for the proper carrying out of its water supply or sewerage functions as the case may be and, pending the transfer, of carrying out those functions. During the period of the order, the Regulated Company is managed for the achievement of the purposes of the order and in a manner which protects the respective interests of members and creditors. However, the effect of other provisions of the WIA is ultimately to subordinate members' and creditors' rights to the achievement of the purposes of the Special Administration Order.

Were a Special Administration Order to be made, it is for the Special Administrator to agree the terms of the transfer on behalf of the existing appointee, subject to the provisions of the WIA. The Transfer Scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's licence (with modifications as set out in the Transfer Scheme) to the new Regulated Company(ies). The powers of a Special Administrator include, as part of a Transfer Scheme, the ability to make modifications to the licence of the existing Regulated Company, subject to the approval of the Secretary of State or Ofwat, as well as the power to exercise any right the Regulated Company may have to seek a review by Ofwat of the Regulated Company's charges pursuant to an IDOK or a "Shipwreck Clause" (as defined below). To take effect, the Transfer Scheme must be approved by the Secretary of State or Ofwat. In addition, the Secretary of State and Ofwat may modify a Transfer Scheme before approving it or at any time afterwards with the consent of the Special Administrator and each new Regulated Company.

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

Protected Land

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

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

- was transferred to a water and wastewater 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;
- 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 wastewater functions; or
- 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 wastewater undertaker.

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

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

Security

Restrictions on the Granting of Security

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

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

- (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: (a) financial resources and facilities; and (b) management resources, to enable it to carry out its regulated activities.

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

Restrictions on the Enforcement of Security

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

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

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

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

Enforcement of Security over Shares in Regulated Companies

Under the WIA, the enforcement of security over, and the subsequent sale of, directly or indirectly, the shares in a Regulated Company would not be subject to the restrictions described above in relation to the security over a Regulated Company's business and assets. Notwithstanding this, given Ofwat's general duties under the WIA to exercise and perform 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 referred to in the section "*Merger Regime*" below could apply in respect of any such disposal.

Economic Regulation

General

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

K Price Limitation Formula

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

Price Control

A small number of mainly large consumption non-domestic customers are charged in accordance either with individual "special" arrangements, or with standard charges which do not fall within the scope of the tariff basket. These include charges for bulk supplies and charges in respect of infrastructure provision and, where these are not in accordance with standard charges, charges for non-domestic supplies of water and the reception, treatment and disposal of trade effluent. Charges for bulk supplies of water are usually determined on an individual basis, as are charges for some larger non-domestic water supplies and some trade effluent. The charging basis for bulk supplies in some cases provides for annual recalculation by reference to the expenditure associated with the supply. In May 2006 Ofwat published its Tariff Structure and Charges Report for 2006/07, in which it set out its policy on tariff issues and the approach to be taken in assessing and approving Regulated Companies' charge schemes, including its expectation that customers' bills should broadly reflect the cost of the service provided.

Periodic Reviews of K

K factors are currently redetermined every five years. Following the last Periodic Review, new price limits took effect from 1 April 2005 and were set for the AMP4 Period. In January 2006 Ofwat published a consultation document entitled "*Setting water and sewerage price limits: Is five years right?*" Ofwat has since stated that in 2009 prices will be set for five years. Ofwat intends to consult on the methodology for setting price limits in Autumn 2007, and in doing so will have particular regard to the need to ensure sustainable development takes place.

Ofwat published the Final Determination of future water and wastewater charges for the AMP4 Period on 2 December 2004 and these came into effect on 1 April 2005. Ofwat made a statement on 31 January 2001 in which it indicated its general approach to the carrying out of Periodic Reviews (see Appendix A (*Ofwat Letter*)). Ofwat published a paper in February 2002 which indicated that, and the basis on which, price limits are to be linked to service levels. Ofwat initiated the 2004 Periodic Review of price limits by publishing the consultation paper "*Ofwat's approach to the periodic review 2004*" on 15 October 2002. In March 2003, Ofwat published "*Setting water and wastewater price limits for 2005-10: framework and approach*". Having considered the Regulated Companies' final business plans for the period, Ofwat published an overview of them in May 2004. Ofwat stated that the aims of the review were to set price limits that provide best value to customers now and in the future. In the review, Ofwat also intended to enable well-managed companies to finance delivery of services in line

with relevant standards and requirements and provide incentives for companies to improve efficiency and service delivery.

In the 2004 Final Determination, Ofwat sought to set price limits, in line with its stated aims, at a level providing best value to customers now and in the future whilst also enabling well-managed companies to finance delivery of services in line with relevant standards and requirements and incentivising companies to improve efficiency and service delivery. Specifically, for the AMP4 Period, Ofwat concluded that an increase in price limits was essential to maintain and improve service standards. These limits reflect increased costs to water companies, particularly in the following areas:

- (i) increased running costs arising from changes to taxation, pension and energy costs and legislative changes;
- (ii) increased activity required to maintain the asset network and improve security of supply to ensure no deterioration in services;
- (iii) further improvements to drinking water quality and the environment required by Ministers; and
- (iv) significant reductions in sewer flooding.

Across the 22 water companies of England and Wales, average price limits per year for the review period are 4.2 per cent., approximately one-third less than that sought by the companies.

Interim Determinations of K

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

A Notified Item is any item formally notified by Ofwat to the Regulated Company as not having been allowed for (either in full or at all) in K, provided that there has been no Periodic Review subsequent to that notification. Notified Items put forward by Ofwat in the determination of price limits for the Regulated Companies in the AMP4 Period are: (a) the costs and revenues associated with any difference in the number of domestic customers who opt to switch to measured charges from that assumed by Ofwat; (b) any net increase in bad debt and debt collection costs compared to 2003/04 arising from, in particular, the loss of power to disconnect residential customers for non-payment from 1 April 2000; (c) costs arising as a result of the implementation of new legislation relating to lane rental or other charges payable to highway authorities for occupying the highway (e.g. the Traffic Management Act 2004); (d) changes in the charges made by the EA for water abstraction and discharges of treated effluent; and (e) changes in taxation on infrastructure expenditure arising from the introduction of International Financial Reporting Standards or any FRS based on Financial Reporting Exposure Draft (FRED) 29.

Relevant Changes of Circumstance are defined in the licences. Such changes include: (a) the application to the Regulated Company of any new or changed legal requirement including any legal requirement ceasing to apply, being withdrawn or not being renewed (to the extent that the legal requirement applies to the Regulated Company in its capacity as a water or wastewater undertaker); (b) any difference in value between actual or anticipated proceeds of disposals of Protected Land and those allowed for at the last Periodic Review or IDOK; and (c) where, on a determination of K, allowance has been made for taking steps to secure compliance or facilitate compliance with a legal requirement or achieve a service standard and the Regulated Company has failed to take those steps and (i) as a result, failed to spend the full amount which it was assumed would be spent taking into account savings which may have been achieved by prudent management and (ii) the stated purpose has not otherwise been achieved.

An IDOK takes account of the costs, receipts and savings to be included in the computation of K which are reasonably attributable to the Notified Items or the Relevant Changes of Circumstance in question

and are not recoverable by charges outside the K price limitation formula. The amount and timing of the costs, receipts and savings must be appropriate and reasonable for the Regulated Company in all the circumstances and they must exclude trivial amounts, any costs which would have been avoided by prudent management action, any savings achieved by management action over and above those which would have been achieved by prudent management action, and any amounts previously allowed for in determining K. These costs are then netted off against the receipts and savings to determine the annual cash flows thereof for each year included in the period over which the costs are to be measured ("**Base Cash Flows**").

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

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

References to the Competition Commission

If Ofwat fails within specified periods to make a determination at a Periodic Review or in respect of an IDOK or if the Regulated Company disputes its determination, the Regulated Company may require Ofwat to refer the matter to the Competition Commission for determination by it after making an investigation. The Competition Commission must make its determination in accordance with any regulations made by the Secretary of State and with the principles which apply, by virtue of the WIA, in relation to determinations made by Ofwat. The decisions of the Competition Commission are binding on Ofwat. No Regulated Company has chosen to dispute the 2004 Final Determination.

Other Restrictions on Charging

Under the WIA, Regulated Companies must charge for water supplied, or wastewater services provided, to dwellings in accordance with a charges scheme which cannot take effect unless approved by Ofwat and must comply with any requirements prescribed by the Secretary of State by regulations. Regulated Companies are prohibited from disconnecting dwellings and certain other premises for non-payment of charges for water supply.

Drinking Water and Environmental Regulation

EU Law Generally

The activities of Regulated Companies are affected by the requirements of EU Directives. Principal EU Directives relating to such activities which are currently in force or are proposed are detailed below.

Water Framework Directive

Directive 2000/60/EC establishing a framework for community action in the field of water policy ("**Water Framework Directive**") was adopted in 2000. It is intended to rationalise existing EU water legislation in order to provide a framework for the protection and improvement of inland and coastal waters from hazardous substances and to promote sustainable water consumption. The Water Framework Directive was transposed into English and Welsh law by the Water Environment (Water Framework Directive) (England and Wales) Regulations 2003 which came into force on 2 January 2004. It is expected to have a significant impact on Regulated Companies in the longer term. For example, it may result in increased limitations on abstraction licences and discharge consents, which could cause Regulated Companies to incur material expenditure. To comply with the Water Framework Directive, Member States will have to achieve "good chemical status" for all waters by 2015.

Groundwater Directive

A new groundwater directive (the "**Groundwater Directive**") was adopted in December 2006 which is the first "daughter" directive to the Water Framework Directive providing further detail on how the objectives of the Water Framework Directive are to be achieved with respect to groundwater. Under the Groundwater Directive, Member States are required to monitor and assess groundwater quality on the basis of common criteria and to identify and reverse trends in groundwater pollution. If groundwater quality is improved, Regulated Companies may benefit from reduced costs in cleaning abstracted water. However, there is also a possibility that Regulated Companies may have to bear part of the costs of complying with this new Directive. The implementation of the Groundwater Directive into UK law is currently under discussion with the proposals for implementation due out for consultation this year. It is therefore difficult at present to determine what, if any, the likely impact would be on Regulated Companies.

Whilst it is anticipated that Regulated Companies will seek to include any expenditure required to comply with the Groundwater Directive in their respective investment programmes, it is not possible to predict the degree to which this will be allowed for by Ofwat.

Urban Waste Water Treatment Directive

The Urban Waste Water Treatment Directive (91/27/EEC) ("**UWWTD**") relates to the collection, treatment and discharge of urban waste water. The UWWTD lays down minimum requirements for the treatment of municipal waste water and for the disposal of sludge and aims to control the discharge of industrial waste waters. Receiving waters are classified according to their "sensitivity" to nutrient enrichment, with "sensitive" waters being subject to more stringent treatment requirements. The European Commission has commenced infraction proceedings against the United Kingdom, alleging that it has failed to implement the UWWTD correctly by inaccurately designating "sensitive" waters. Depending on the outcome of the infraction proceedings, Regulated Companies may be required to make material investment in further treatment processes.

Bathing Waters Directive

On 12 October 2005, the European Parliament and Council reached agreement on the scope of a new Bathing Waters Directive (2006/7/EC). This new Directive was adopted and published early in 2006. Member States have two years to transpose it into domestic law. This process is currently taking place within the UK.

The main objective of this Directive is to improve public health protection, while taking account of changes in science and technology and bathing water management since the original 1976 Directive was adopted. Key aspects of the new Directive include an obligation to meet a much tighter minimum bathing water quality standard, rationalisation of the water quality parameters to be monitored, new rules for the frequency of sampling and improved provision of information to the public concerning bathing water quality.

Water Quality Directive

The EU's Directive on the Quality of Water intended for Human Consumption (98/83/EC) sets standards for water intended for drinking, food preparation or other domestic purposes and has been implemented by the Water Quality Regulations, which came into force on 1 January 2004.

Habitats and Birds Directives

Directive 92/43/EEC on the conservation of natural habitats and wild flora and fauna ("**Habitats Directive**") and Directive 79/409/EEC on the conservation of wild birds ("**Birds Directive**") establish a network of areas protected by designation across Europe called "Natura 2000" to conserve endangered habitats classified as special protection areas ("**SPA**") under the Birds Directive and Special Areas of Conservation ("**SAC**") under the Habitats Directive. Once a site is designated, Member States must take steps to avoid the deterioration of habitats and disturbance of species. This has involved a review of any existing abstraction discharge consents that are likely to impact upon a protected area. Regulated Companies are likely to have sites located within or adjacent to SPAs or SACs, which could materially affect operations and the ability to abstract water in or adjacent to such designated areas. The designation of SPAs and SACs, pursuant to the Habitats Directive, may negatively impact upon a Regulated Company's plans for future sites or operations. This risk is significantly increased by the effects of climate change, such as the increasing risk of drought.

Environmental Liability Directive

In April 2004, a European Directive (2004/35/EEC) on "environmental liability with regard to the prevention and remedying of environmental damage" (the "**Environmental Liability Directive**") came into effect, which aims to both prevent and remedy environmental damage, including water pollution, damage to biodiversity and land contamination which causes serious harm to human health. Under the Environmental Liability Directive, operators responsible for certain prescribed activities (for example, those which are subject to the PPC Regime) and which cause environmental damage would, subject to certain defences, be held strictly liable for restoring the damage caused or made to pay for the restoration. All other operators who cause damage to biodiversity by fault or negligence will be under an obligation to repair the damage. Member States have three years to implement the Environmental Liability Directive into national law. Although liability under the Environmental Liability Directive will not be retrospective, the Environmental Liability Directive may well have a significant impact on Regulated Companies whose operations cause damage to the environment and biodiversity.

Strategic Environmental Assessment Directive

Directive 2001/42/EC on the assessment of the effects of certain plans and programmes ("**SEA Directive**") states that its objective is "to provide for a high level of protection of the environment and to contribute to the integration of environmental considerations into the preparation and adoption of plans and programmes with a view to promoting sustainable development". It requires an "environmental assessment" of certain plans and programmes. The SEA Directive defines "environmental assessment" as a procedure comprising:

- (i) preparing an Environmental Report on the likely significant effects of the draft plan or programme;
- (ii) carrying out consultation on the draft plan or programme and the accompanying Environmental Report;
- (iii) taking into account the Environmental Report and the results of consultation in decision making; and
- (iv) providing information when the plan or programme is adopted and showing how the results of the environmental assessment have been taken into account.

Water Resources Plans are likely to fall within the scope of the SEA Directive, if their preparation began on or after 21 July 2004. This means that affected Regulated Companies will have to prepare a report on the likely significant environmental effects of their plans, consult environmental authorities

and the public, and take the report and the results of the consultation into account during the plan preparation process and before the plan is adopted.

Pollution Prevention and Control

The EC Integrated Pollution Prevention and Control Directive (96/61/EC) (the "**IPPC Directive**") establishes the integrated Pollution Prevention and Control Regime ("**PPC Regime**"), which aims to achieve a high level of protection of the environment as a whole by providing an integrated approach to pollution control. Under the PPC Regime, there is a basic prohibition on operating certain prescribed industrial "installations" except under, and to the extent authorised by, a PPC permit.

Recycling treated sludge to agricultural land as a fertiliser and soil conditioner is the major outlet for this material. Current controls of this activity are based on the EU Directive on the Protection of the Environment, and, in particular, of the Soil, when Sewage Sludge is used in Agriculture (86/278/EEC) (the "**Sludge Directive**"). Among other things, the Sludge Directive sets out limits for concentrations of heavy metals and prohibits the use of sludge on certain crops.

Incineration of sewage sludge with energy recovery is regulated under the PPC Regime and certain permit conditions applying to incineration are set in accordance with the Waste Incineration Directive (2000/76/EC) (implemented through the permitting requirements of the PPC Regulations and the Waste Incineration Regulations 2002).

United Kingdom Law Generally

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

Abstraction Licensing

Under the WRA, water abstractions must be carried out in accordance with a licence granted by the EA. It is a criminal offence to abstract water without a licence or in breach of the conditions of an abstraction licence. The maximum penalty is an unlimited fine. The Water Act amends the abstraction licensing system in England and Wales to ensure the sustainable use of water. The EA may revoke abstraction licences in the interests of environmental protection where a licence has not been used for four years. No compensation would be available for any loss suffered as a consequence of any such amendment or revocation. The Government has said that it expects all abstractors to work with the EA to ensure that any environmentally damaging abstractions are replaced with sustainable alternatives before this provision comes into effect. Existing abstraction licences may be revoked or varied where the Secretary of State believes that revocation or variation is necessary to protect any waters or underground strata, or any flora and fauna dependent on them, from serious damage and from 15 July 2012 such variations and revocations can be made without compensation being payable. Also included in the Water Act is a provision requiring all new abstraction licences to be time-limited (and the Government has previously indicated that it expects most existing licences to be converted to a time-limited basis over time) and a provision creating a new right for third parties to claim damages against an abstractor for loss or damage due to water abstraction. Any new licence with a duration of more than 12 years will provide for a minimum volume to which abstraction can be reduced on six years' notice without compensation being paid.

Changes to the charges levied by the EA in connection with abstraction licences are also proposed. A consultation is expected to be launched in summer 2007. Ofwat has recognised that the new charging scheme has the potential to increase charges to Regulated Companies and is considering proposals that some of the increase in charges will be recoverable from customers. At the date of this Prospectus, there is no firm proposal for implementation; hence it is not possible for Regulated Companies to calculate the financial impact of the proposals on it.

In April 2001 the EA launched the Catchment Abstraction Management Strategies ("**CAMS**") process which is a part of the Government's plans to reform water resources licensing. For the purposes of managing water resources, the EA has divided England and Wales into catchment areas and intends to work through the CAMS process in each catchment area by 2008. This will involve identifying local

water resource issues and consulting with stakeholders such as abstractors, conservation organisations and water users. The EA will then formulate a local strategy for each catchment area based upon sustainable use of water resources. The strategy will give details of the water resource availability in the catchment area and will inform the EA's abstraction licensing policies for that area. CAMS will also be the vehicle for reviewing time-limited abstraction licences and determining whether and on what terms they should be renewed.

If an abstraction licence potentially affects a site designated under the Conservation (Natural Habitats &c.) Regulations 1994, the licence must be reviewed in accordance with those Regulations, a process called "appropriate assessment". The EA has said that it intends to complete Stage 4 (Determination of the application) of its review under the Habitats Directive of high and medium priority sites that may be affected, by March 2008. The modification or revocation of abstraction licences allows for compensation to be paid, which is recoverable through increased abstraction licence charges, as described above.

Water Quality

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

Pollution Prevention and Control

There are separate legislative controls over discharges to water courses from certain environmentally hazardous processes under the PPC Regime which was introduced by the Pollution Prevention and Control Act 1999 (and the Pollution Prevention and Control Regulations 2000 made under that Act) (the "PPC Act" and the "PPC Regulations", respectively) pursuant to the IPPC Directive. This is being phased in on an industry sector basis and amends the existing Integrated Pollution Control (IPC) regime established under the EPA. The aim of the IPPC regime is to protect the environment from the potentially harmful effects of industrial installations. Operators of certain such installations are required to be authorised by the EA (or local authority) under a PPC permit, and are required to use the best available techniques to reduce environmental damage both during the life of an installation and following its closure. Depending on the type and volume of waste processed, certain water company activities can be subject to the PPC Regime.

A recent case, *United Utilities Water v Environment Agency* [2006] EWCA Civ 633, extended the application of the PPC Regime to include treatment operations at sewage treatment works which produce sludge. This interpretation, however, is subject to challenge, and United Utilities Water have been granted leave to appeal to the House of Lords.

Sewage Sludge

The recycling of wastewater sludge by using it on agricultural land as a fertiliser and soil conditioner is recognised by the European Parliament and the European Commission as the Best Practicable Environmental Option for such material. Such recycling must be in accordance with the Sludge (Use in Agriculture) Regulations 1989 (the "**Sludge Regulations**"). The Government is currently amending these Regulations, but the water industry has already invested for, and is complying with, the forthcoming amendments in advance of the Sludge Regulations coming into force. These amendments will give statutory effect to the water industry's voluntary agreement with the British Retail Consortium under the Safe Sludge Matrix. The European Commission is currently considering proposals to amend the EU's 1986 Sludge Directive (86/278/EEC). There may be some tightening of metals and organic limits, in addition to following the UK approach on pathogen standards. However, the use of treated sludge in agriculture is recognised as important by the Commission, and they have a stated objective "to increase the quantity of sludge that is used on land in a sustainable manner".

It should be noted that sludge use in agriculture is subject to both market forces and legislation. Significant changes to markets or legislation could cause Regulated Companies to incur material

expenditure, but both legislation and markets have been recognised as potential "Relevant Changes of Circumstance" by Ofwat in relation to licences of Regulated Companies.

Climate Change

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

The Government published the Energy White Paper on 23 May 2007. In order to reduce carbon emissions, the Government proposes to implement a mandatory cap and trade scheme - the Carbon Reduction Commitment. The focus of the scheme will be on large non-energy intensive sectors, where organisations whose mandatory half-hourly metered electricity consumption is greater than 6000MWh per year. This is expected to capture organisations with annual electricity bills above £500,000. Given the nature of the operations of Regulated Companies, they are likely to fall within the scheme, however, as the details of the scheme are yet to be developed, the potential impact of such a scheme is unclear.

By nature, Regulated Companies are exposed to the risk of increasing drought and consequent loss of abstraction resources resulting from the effects of climate change. It is likely that the use of such resources will become increasingly regulated as governments work to comply with their international obligations pertaining to the environment and as such resources become scarce. As a consequence and in order for Regulated Companies to comply with such increasing regulation and to mitigate the risk of decreasing abstraction resources, it is likely that this will be a future area of investment for these companies. To the extent that such investment is not allowed by Ofwat for whatever reason, this may constitute a material liability for the relevant company.

Contaminated Land

Part IIA of the EPA, together with certain implementing regulations and statutory guidance, establishes a legal regime to address the remediation of historically contaminated land. Current and future impacts are dealt with under other pollution control laws. Under the regime, the original polluter or any person who is a "knowing permitter" can be required to clean up contamination of land if it is causing, or there is a significant possibility of it causing, significant harm to the environment or to human health or if pollution of controlled waters is being or is likely to be caused. The Water Act amended Part IIA of the EPA in relation to water pollution so that it applies only if significant pollution of controlled waters is being caused or there is a significant possibility of such pollution being caused. If the polluter or a knowing permitter cannot be found, the owner or occupier of the land may be held liable, whether or not it caused the contamination. Civil liability may also arise (under such heads of claim as nuisance or negligence) where contamination migrates into or on to third-party land and/or impacts upon human health, flora or fauna and liability for contamination may also rest with a Regulated Company where the contamination arose as a result of the activities of one of its statutory predecessors.

Asbestos

The Control of Asbestos at Work Regulations 2006 impose a duty on those who own or control commercial premises to carry out detailed assessments for the presence of asbestos, record its condition and proactively manage the associated risks.

Trade Effluent Discharge

Regulated Companies are responsible under the WIA for regulating discharges of industrial effluent into their sewers. Industrial and trade sources of wastewater to sewers arise from a wide range of industries, such as food manufacturers, car washes and laundries. Regulated Companies regulate these discharges to protect their operations and the environment.

Under section 118 of the WIA, an owner or occupier of premises who wishes to discharge trade effluent into public sewers must apply to the relevant Regulated Company for consent to do so. In considering whether or not to grant such a consent, the Regulated Company will usually have regard to

the effect that receiving the effluent will have on the performance of its sewage treatment works and associated discharges. Such a consent may be subject to conditions imposed by the Regulated Company. These conditions can stipulate treatment to be undertaken to minimise the polluting effects of the discharge, as well as charges to be paid in respect of the trade effluent discharge. Under the Trade Effluents (Prescribed Processes and Substance) Regulations 1989 (SI 1156) (as amended in 1990 and 1992), when trade effluent contains prescribed substances, or more than a prescribed quantity of such substances, or derives from a stipulated process (that is "**special category effluent**"), the Regulated Company must refer to the EA any application to make such a discharge. The EA must then determine whether, and if so upon what conditions, the Regulated Company may accept the discharge. The Regulated Company cannot consent to the discharges to which the reference relates until the EA serves notice on the Regulated Company of its determination on the reference. Any person aggrieved by the refusal of a Regulated Company to give consent or by conditions imposed in a consent can appeal to Ofwat.

The Regulated Company may review the terms of any consent from time to time and vary those terms by notice. However, this power is subject to restrictions. In addition, in certain circumstances, the EA has the power to review discharges of special category effluent, and may require the termination or variation of the relevant discharge. Again, this power is subject to restrictions, unless the review is required to enable compliance with EU obligations or international agreements, or for the protection of the environment.

A Regulated Company may enter into an agreement with the owner or occupier of trade premises for the reception and disposal of trade effluent, instead of granting a consent. If the trade effluent which is to be the subject of an agreement is special category effluent, the Regulated Company must refer to the EA the question of whether the relevant operations should be prohibited or made subject to conditions. The Regulated Company cannot enter into any agreement regarding special category effluent until the EA serves notice on the Regulated Company of its determination in this regard.

It is an offence to discharge trade effluent from trade premises without a consent from, or an agreement with, the relevant Regulated Company, or to fail to comply with the conditions in a consent, and in both cases the maximum penalty is an unlimited fine.

Sewer Flooding

When a "combined" sewerage system, which carries both sewage and surface water run-off, reaches its capacity during heavy rainfall, a mixture of surface run-off and sewage overflows into rivers or out of external or internal drains. Section 94 of the WIA places a duty on every Regulated Company to ensure its area is properly drained via an adequate sewerage system. This duty is enforceable by the Secretary of State or Ofwat who, under section 18 of the WIA, may make an Enforcement Order securing compliance. Householdors can bring proceedings against the Regulated Company in respect of its failure to comply with such an Enforcement Order. However, where such an order has not been made, the only remedy available to such householdors is to request that the Secretary of State or Ofwat makes an order and, if one is not forthcoming, to pursue judicial review proceedings against either the Secretary of State or Ofwat on the grounds of their failure to act. Householdors do not have the right directly to enforce section 94 against Regulated Companies. This was confirmed by the House of Lords' decision in *Marcic v Thames Water Utilities* [2003] UKHL 66.

In *Environment Agency v Thames Water Utilities Limited*, the EA is prosecuting TWUL for a number of offences alleged to have occurred in 2003, including the deposit of untreated sewage constituting "controlled waste" without a waste management licence contrary to section 33(1)(a) of the EPA. A number of preliminary points of law arose in the proceedings, the principal one of which was as to whether or not sewage escaping from a sewer governed by the UWWTD and the WIA falls within the scope of domestic waste controls implementing the Waste Framework Directive 75/442/EEC (as amended by Directive 91/156/EEC). The EA claims that such leaks are breaches of domestic waste controls and are criminal offences. TWUL claims that such leaks are excluded from the scope of the Waste Framework Directive by the terms of that Directive. The point of law was referred by the Divisional Court to the European Court of Justice ("**ECJ**") (Case C-252/05). The case was adjourned pending the ECJ's decision on the reference. On 10 May 2007, the ECJ ruled that waste water which escapes from a sewerage network maintained by a statutory wastewater undertaker pursuant to Council

Directive 91/271/EEC of 21 May 1991, constitutes waste within the meaning of the Waste Framework Directive. The ECJ also ruled that it falls to the national court to ascertain whether national rules outside of those implementing the Waste Framework Directive may be regarded as "other legislation" containing precise provisions organising the management of the waste in question, and if they are such as to ensure a level of protection of the environment equivalent to that guaranteed by the Waste Framework Directive. Whatever the decision of the Divisional Court, there may be significant and costly changes to the operational practices of sewerage undertakings. If the Divisional Court rules in favour of the EA, thus confirming that discharges from sewers fall within the UK's waste management regime, to the extent such expenses need to be incurred, it is currently unclear whether Ofwat will consider such expenditure as a Relevant Change of Circumstances under a licence (resulting from a "Change of Law"), and hence whether a Regulated Company will be eligible to apply for an IDOK.

Combined Sewer Overflows ("CSOs")

London's sewage system is often unable to cope with the combined flow from the city's sewage and storm water system. This system was designed so that during heavy rain, untreated sewage overflows into the Thames Tideway in order to prevent overflows elsewhere in the system.

It is a requirement of the Urban Waste Water Treatment Directive that Member States limit the pollution of receiving waters by untreated sewage discharge. To meet this requirement, the EA uses performance criteria to assess the impact of CSOs and to determine whether they should be regarded as "satisfactory" or "unsatisfactory". CSOs will be regarded as unsatisfactory if, for example, they cause a breach of water quality standards or other EC directives, they cause or significantly contribute to a deterioration in river chemical or biological quality/class, or they cause a significant visual or aesthetic impact due to solids or sewage fungus and have a history of justified public complaint.

Discharge into Controlled Waters

If Regulated Companies wish to discharge polluting matter into controlled waters, they must seek a consent from the EA. Generally applications are made under section 88 and Schedule 10 of the WRA (although consents under the WIA may be required for works carried out at reservoirs, wells or boreholes where discharges are made through pipes of a certain size). The EA has the power to grant or refuse consents, to impose conditions, or to modify, vary or revoke such consents. Consent conditions may control the quantity of a discharge or the concentrations of particular substances in it, or impose broader controls on the nature of a discharge. They are based on objectives set by the EA for the quality of the relevant receiving water as well as any relevant water quality standards in EU Directives. The UWWTD, which is implemented by the Urban Waste Water Treatment (England and Wales) Regulations 1991, requires that, as a first step in implementation, sensitive, normal and less sensitive areas are identified in the UK. Minimum standards of treatment are then specified according to the size of the population and/or the level of economic activity in the area from which the waste water arises and the sensitivity of the waters into which the treated water is discharged. It is a criminal offence under the WRA to cause or knowingly permit any discharge of trade or wastewater effluent or other poisonous, noxious or polluting matter into controlled waters. However, there is a defence if it is carried out in compliance with a consent. The principal prosecuting body is the EA. Under the WRA, the EA is empowered to take remedial action to deal with actual or potential pollution of controlled waters and may recover the reasonable costs of any works undertaken from any person who caused or knowingly permitted the pollution (and can also require that person to take the remedial action itself).

As a result of a decision of the Court of Appeal in March 2001, Regulated Companies will in future have to negotiate contracts with the owners of certain watercourses in order to be able to discharge treated waste water effluents into such watercourses.

Non-compliance

Section 85 of the WRA provides for a number of water pollution offences which include causing or knowingly permitting any poisonous, noxious or polluting matter or any solid waste matter to enter controlled waters unless the relevant discharge is made under and in accordance with a regulatory consent (including a discharge consent), and failing to comply with the conditions in a discharge

consent. The maximum penalty for these offences is an unlimited fine or two years' imprisonment, or both.

Under section 87 of the WRA, a Regulated Company will be regarded as responsible for a discharge of sewage effluent if it was bound to receive into its sewers the matter included in that discharge. However, a Regulated Company will not be guilty of an offence under section 85 if the offending discharge is attributable to a discharge into sewer by a third party which the Regulated Company was not bound to receive and could not reasonably have been expected to prevent.

Groundwater

Activities that could lead to the contamination of groundwater such as direct and indirect discharges of certain prescribed substances to groundwater, are regulated under the Groundwater Regulations 1998 (the "**Groundwater Regulations**"). The Groundwater Regulations require authorisation of such discharges. Direct discharges, which are those ones which enter, without percolation, straight into groundwater, are already controlled under, for example, the WRA or the PPC regime (see above), and applications for authorisations for these discharges will continue to be made under that legislation. Any authorisations granted must be consistent with the requirements of the Groundwater Regulations. Indirect discharges, which are those which enter groundwater following percolation through ground or subsoil, may arise from the disposal or tipping for the purposes of disposal to land of certain prescribed substances, and applications for authorisations for them will be made to the EA under the Groundwater Regulations. The EA also has the power under the Groundwater Regulations to issue notices to control activities (other than the activities of disposal) which may cause an indirect discharge to groundwater of certain prescribed substances – for example, oil from underground storage tanks. Before issuing such notices, the EA must take account of any code of practice issued for the purposes of the Regulations.

Hazardous Substances

Regulated Companies operate facilities which house hazardous substances (e.g. oil, PCBs) and which therefore could be subject to the following regulatory requirements: (i) the Control of Pollution (Oil Storage) (England) Regulations 2001, which require that all new and existing above ground storage facilities holding more than 200 litres of oil have minimum design standards to prevent spilt or leaking oil from entering controlled waters; (ii) the Environmental Protection (Disposal of Polychlorinated Biphenyls and other Dangerous Substances) (England and Wales) Regulations 2000, which regulate electrical equipment that contains PCBs (for example, since 31 December 2000, holding PCBs or equipment containing PCBs has been prohibited); (iii) the Control of Major Accident Hazards Regulations 1999 ("**COMAH Regulations**") which give effect to a safety regime for the prevention and mitigation of major accidents at establishments where named dangerous substances or dangerous substances falling within certain generic categories are present in specified quantities. The COMAH Regulations apply at two thresholds, the lower tier and the top tier, depending upon the quantities of dangerous substances that are present. Operators must comply with lower tier duties (such as taking all measures necessary to prevent major accidents and limit their consequences) and operators that have quantities of dangerous substances over the higher threshold are subject to the additional top tier duties (such as preparation of a safety report).

Management of Water Resources

Water Resources Planning

The Water Act amends the WIA to provide that Regulated Companies are under a duty to further water conservation when they formulate or consider any proposal relating to their functions and has placed water resources plans on a statutory footing: Regulated Companies are now under a duty to produce Water Resources Plans and publish and consult upon them. These plans will set out how the Regulated Company will manage and develop water resource so as to be able, and continue to be able, to meet its water supply duties under the WIA. It must address, amongst other things, the Regulated Company's estimate of water it will need to meet its duties, and the measures it intends to take to manage and develop resources. The planning period is 25 years. Plans will be subject to an annual review (the conclusion of which must be sent to the Secretary of State) and will have to be revised every five years, or in any case where the annual review indicates a material change in circumstances, or the Secretary of

State directs that a revised draft should be prepared. In the past, Regulated Companies have produced Water Resources Plans on a voluntary basis and reported to the EA on their plans every five years.

As described above, Water Resources Plans are likely to fall within the scope of the Strategic Environmental Assessment Directive (2001/42/EC), if their preparation began on or after 21 July 2004. In addition, the plans will need to take account of the Habitats Directive (92/43/EEC) and the likely effect of any measures on protected habitats.

Drought Planning

There are various water restriction options available to Regulated Companies in times of drought, which could be applied, in the order set out below, depending on the severity of the drought situation and the approval of either DEFRA or the EA.

- Voluntary water restrictions which generally involve press campaigns to encourage customers to voluntarily restrict their use of water.
- Hosepipe and sprinkler ban which prohibits the watering of private gardens and allotments with hosepipes, sprinklers, perforated hoses, trigger hoses or irrigation systems and the washing of all private cars with hosepipes. Watering gardens with watering cans or using buckets to wash cars is permitted.
- A Drought Order is granted by DEFRA and allows a Regulated Company to stop or limit the use of water for a range of purposes, such as: watering of parks and sport or recreation grounds; ornamental fountains; cleaning the exteriors of buildings; washing of road vehicles, railway rolling stock, aircraft (other than for safety/hygiene). A Drought Order lasts for up to six months, but can be extended up to a year.
- A Drought Permit is granted by the EA and allows a Regulated Company to take water from new sources, or increase the amount of water taken from existing sources. A Drought Permit lasts for up to six months, but can be extended up to a year.
- An Emergency Drought Order is granted by DEFRA and allows a Regulated Company to limit usage "for such purposes as it thinks fit", and to set up standpipes or water tanks to provide water during rota cuts. Emergency Drought Orders can last for up to three months, but can be extended up to five months.

The necessary powers for a Drought Order, a Drought Permit and an Emergency Drought Order are provided under the WRA.

Regulated Companies are under a statutory duty to consult on, prepare and maintain a drought plan. This plan should prescribe how the Regulated Company will continue during a period of drought to discharge its duties to supply adequate quantities of wholesome water with as little recourse as reasonably practicable to Drought Orders or Drought Permits.

The plan must include measures that the Regulated Company might need to take to restrain the demand for water in its Water Region and those it might need to take to obtain extra water from other sources. The Secretary of State may issue directions as to the content of the plan. Drought plans must be reviewed within three years of the date they were published and should be revised or reviewed if there is any material change of circumstances or if the Secretary of State directs.

Sustainability Reductions

The management of water resources by Regulated Companies is subject to a number of challenges, including: dry weather conditions, climate change; increasing demands for water; rises in leakage rates; aquifer contamination from industrial and agricultural pollution; and reductions in abstraction required to ensure sustainable river systems. In relation to the latter, the EA has been instructed by DEFRA to use its powers to revoke damaging abstraction licences. The Restoring Sustainable Abstraction Programme was set up by the EA in 1999 with the purpose of investigating and, where

appropriate, resolving the impacts of abstraction on sites designated by statutory drivers (for example, the Habitat Regulations) and undesignated sites of concern to local communities.

In previous years, funding for environmental sustainability reductions has been provided through the Periodic Review with the solution chosen to achieve the abstraction reduction (such as use of an alternative water supply source) being funded prior to its implementation. This funding mechanism is no longer available for the AMP4 Period and subsequent AMP Periods. Licence reductions will now be funded through the payment of compensation by the EA, with the money being paid after the licence reduction. The EA plans to raise the funds through the abstraction charges scheme, the majority of which charges are paid for by Regulated Companies. From 2012, the EA will have the power to revoke existing abstraction licences without paying compensation, so long as it gives six years' prior notice. At this time, a funding route for sustainability reductions will need to be found, and it is possible that the Periodic Review mechanism will be used again.

Planning and Environmental Impact Assessment

All development carried out by Regulated Companies will require planning permission from the relevant local planning authority, unless the development is considered to be permitted development under the Town and Country Planning (General Permitted Development Order) 1995, in which case planning permission for it is effectively granted by the development order without any application being made.

The relevant local planning authority will consider applications for planning permission against the backdrop of the development plan compiled for its area, which sets out objectives, policies and proposals for the use of land. Major projects, such as the development of new pipelines or reservoirs, or the construction of or extensions to sewage or water treatment works, may also be subject to an environmental impact assessment ("EIA") under the Town and Country Planning (Environmental Impact Assessment) (England and Wales) Regulations 1999 (the "EIA Regulations"). An EIA is a procedure for drawing together in a systematic way a project's likely significant environmental effects. Projects falling within Schedule 1 of the EIA Regulations (for example, a sewage treatment works with a capacity exceeding 150,000 population equivalent) will require an environmental impact assessment in every case. Projects falling within Schedule 2 of the EIA Regulations (for example a sewage treatment works which does not fall within Schedule 1) will require an assessment only if they are judged likely to give rise to significant environmental effects.

The main part of the assessment is the environmental statement which contains: a description of the development, a description of measures to be taken to mitigate environmental effects, the data necessary to identify and assess the main environmental effects, an outline of the main alternatives to the development and a non-technical summary. The environmental statement will generally accompany the planning application that is submitted to the local authority. The EIA Regulations require that the statement be publicised; public authorities with relevant environmental responsibilities and the public must be given an opportunity to give their views about the project and the statement. The local planning authority is under a duty to take into account the environmental statement, together with any representations made on it, in determining the planning application.

Applicants have the right to appeal against a decision to refuse an application for permission. Appeals from a decision of the local planning authority are normally dealt with by the Planning Inspectorate on behalf of the Secretary of State.

Competition in the Water Industry

General

Each Regulated Company effectively holds a geographic monopoly within its appointed area for the provision of water and wastewater services although there is some limited competition. Ofwat has stated that it will use its powers under the Competition Act to investigate and prohibit anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry.

The current main methods for introducing competition are:

- (i) inset appointments which allow one Regulated Company to replace another as the statutory undertaker for water or wastewater in a specified geographical area within the other Regulated Company's appointed territory (see the section "*Termination of a Licence*" above);
- (ii) facilitating developers, or their contractors, to provide new water mains and service pipes instead of asking Regulated Companies to do the work ("**self-lay**"). The Water Act introduced a statutory framework for self-lay (see below);
- (iii) water supply licence (retail) - when a water supply licensee purchases water from the existing water undertaker and supplies water to an eligible customer. The Water Act introduced a statutory framework for such licences. Companies have also published indicative access prices, which indicate the approximate scale of discount they would offer to customers in the event that they were supplanted as supplier by a licensee;
- (iv) water supply licence (combined) - when a water supply licensee supplies water to its eligible customers using a Regulated Company's network (referred to as "common carriage"). All Regulated Companies maintain access codes which set out the conditions under which licensees may introduce water into their networks;
- (v) cross-border supplies where a customer in an area adjacent to a neighbouring Regulated Company's territory can connect to another Regulated Company's network and receive a supply; and
- (vi) private suppliers or private sewers including on-site water and effluent treatment.

However, Ofwat is concerned that these methods may not be sufficient to promote effective competition. Ofwat is currently consulting on further measures to increase competition in water supply, as well as the feasibility of introducing competition in the supply of sewerage services (see "*Consultation on market competition in the water and sewerage industries in England and Wales*", published 13 July 2007). This consultation relates to two general areas:

- (i) options for change to the current competition regime: these include in particular, consultation on the current approach to access pricing; whether the eligibility threshold should be lowered; and whether competition should be introduced with respect to the supply of sewerage services; and
- (ii) options for longer term change to the water and sewerage industry: including the introduction of competition in the "production" and abstraction water, as well as the feasibility of introducing structural separation (i.e. the vertical unbundling of different parts of the value chain).

Many of these proposals would, if ultimately implemented, require legislative changes and therefore the support of the Government.

The Water Act

The Water Act contained provisions aimed at increasing the opportunities for competition in the supply of water services to non-household high-volume users. The eligibility threshold for such users has been set initially at 50 megalitres per year, though there is a mechanism to amend the threshold.

The Water Act introduced a system to license new water suppliers either under a "retail licence" or a "combined licence". The new licensing system commenced on 1 December 2005. A "retail licence" enables the holder to purchase water from the Regulated Company to supply to its customers through a wholesale agreement with the Regulated Company. Retail services could range from simply contracting with the customer to provide a supply and billing for the supply, to a much wider range of services including water efficiency planning, metering and providing tailored customer services. A "combined licence" is a retail licence with a supplementary authorisation to allow the holder to introduce water into the supply system ("**common carriage**") in connection with a supply to customers' premises in accordance with its retail authorisation. Such a licensee may have its own water sources or it may purchase water from a neighbouring Regulated Company to import into the "local" Regulated

Company's supply system. This introduction must be done through an access agreement with the relevant Regulated Company. Before a combined licence is granted, the Secretary of State must be consulted so that the DWI can give its assessment as to the applicant's suitability to introduce water into the public supply network. Regulated Companies are excluded from holding a retail or combined licence but an associated company of a Regulated Company may do so.

Before a Regulated Company is required to provide a wholesale supply of water to a licensee in respect of customers in the Regulated Company's appointed area, certain conditions must be satisfied. Where a request is made for such a wholesale supply, the Regulated Company is under a duty to take steps to enable the supply to be made and to provide that supply in accordance with terms agreed with the supplier or determined by Ofwat, for example, connecting a new customer to the main. However, there are certain circumstances in which the duty on a Regulated Company to supply a licensee does not apply.

Equally certain conditions apply when Regulated Companies are required to allow licensees with a combined licence to introduce water to their supply systems. The duty on Regulated Companies to allow licensees to introduce water is limited to where a request is in connection with a specific supply to a customer under the licensee's retail authorisation. The Regulated Company will also be under this duty where it has agreed (outside the competition provisions in these clauses) to treat a licensee's water so that it can be introduced into the supply system and, in connection with that introduction, the licensee requests that the Regulated Company permit the licensee to then introduce water into the supply system for the supply of its customers. The Regulated Company that receives a request to introduce water to its supply system must take steps to permit this in accordance with the terms agreed with the licensee or determined by Ofwat. Such steps may include laying a pipe to connect the licensee's treatment works with the Regulated Company's supply system. However, there are certain circumstances in which the duty on the Regulated Company to allow the licensee to introduce water to its supply system does not apply.

A licensee may seek a determination from Ofwat as to whether a refusal on the part of the Regulated Company to provide a wholesale supply or to permit water to be introduced was justified. Where the terms cannot be agreed with the Regulated Company for such an arrangement, Ofwat will determine the terms and conditions and, if the licensee agrees, these will form the contract. The charges payable by the licensee under the agreement or determination must be fixed in accordance with the costs principle.

The costs principle is that Regulated Companies are to recover from licensees two elements of cost to the extent that those sums exceed any financial benefits the Regulated Companies receive as a result of the licensee using the system:

- (i) the direct costs of providing any wholesale supply to a licensee or permitting the introduction of water into the supply system; and
- (ii) an appropriate amount (the expenses which the Regulated Company would have ordinarily received from its customers if they had not been supplied by the licensee which cannot be reduced or avoided) of qualifying expenses (those incurred in performing statutory functions) together with a reasonable return on that amount.

Under the Water Act it is an offence to use a Regulated Company's system to supply the premises of a customer unless the supply is made by a Regulated Company or a licensee in pursuance of its licence. It is also an offence to introduce water into a Regulated Company's supply system except for the introduction by a licensee in pursuance of its licence or by another Regulated Company under an agreement with the Regulated Company in question or under a bulk supply agreement. The Secretary of State may, however, by statutory instrument grant exemptions to the above offences.

The Water Act also sets out a statutory framework for self-lay and adoption of water mains and service pipes including the steps to be taken and the agreement that must be entered into by a developer or self-lay organisation proposing to construct water mains or service pipes which are to be vested in the Regulated Company. It provides that the main must be built in accordance with the agreement of the Regulated Company to enable it to be adopted on completion and Regulated Companies may not connect new mains or service pipes to their public networks unless they are adopted in this way. There

are certain situations, however, when appeals can be made to Ofwat if the Regulated Company refuses to enter into an adoption agreement on reasonable terms. The Water Act also sets out that the person who enters into the adoption agreement relating to a water main must pay the Regulated Company's reasonable costs of incorporating the water main within its existing water mains network. It also provides for an offset payment to be made by the Regulated Company to the developer or self-lay organisation equivalent to the discounted estimated sum of the water charges for the first 12 years in respect of the premises expected to be connected to the new main. In respect of self-lay and adoption of water mains, Ofwat issued a guidance note in August 2005.

In addition to the Water Act, Ofwat issued on 25 March 2002 a letter to Regulatory Directors that set out changes designed to improve incentives for companies which seek to generate new revenues through new bulk supplies or competitive initiatives. At present the price-setting methodology at Periodic Reviews dampens the incentive for such initiatives by effectively giving companies back the revenue lost through losing a customer and taking away the revenue gained through winning a new customer. To remedy this, Ofwat proposed that companies retain the net revenue gains (or losses) relating to new bulk supplies or competitive non-tariff basket activity (i.e. the larger industrial and commercial customers) for five years. To date these proposals have not been implemented.

The Competition Act

The Competition Act came into force in March 2000 and introduces two prohibitions concerning anti-competitive agreements and conduct and powers of investigation and enforcement.

The Chapter I Prohibition prohibits agreements, decisions by associations of undertakings or concerted practices between undertakings which may affect trade within the UK and which have as their object or effect the prevention, restriction or distortion of competition within the UK. The Chapter II Prohibition prohibits the abuse of a dominant position which may affect trade within the UK.

Ofwat has concurrent powers with the OFT to apply and enforce the Competition Act 1998 to deal with anti-competitive agreements or abuses of dominance relating to the water and wastewater sector, including the power to enforce directions to bring an infringement to an end and to impose fines of up to 10 per cent. of Thames Water's worldwide group-wide turnover for the infringement up to a maximum of three years. Also any arrangement which infringes the Competition Act may be void and unenforceable and may give rise to claims for damages from third parties. A party to an anti-competitive agreement may also be able to seek relief from the other party if it was in a markedly weaker bargaining position than the other party when the contract was made or where the party seeking relief cannot bear significant responsibility for infringement of the Chapter I Prohibition.

The EA consultation document on the facilitation of trading of water abstraction licences ("*Trading Water Rights - A Consultation Document*" June 2003) considered the possibility of abuse by licence holders in a dominant position of an area who may seek to buy up all water rights available in that area to prevent competitors acquiring water rights. The EA considered that this potential problem could be dealt with by the EA assessing all trading applications in terms of reasonable need and for consistency with competition principles, and by Ofwat or the OFT as part of their statutory roles. As such it does not represent a change to the legal framework governing competition in the water industry.

Merger Regime

As a result of changes made by the Enterprise Act and the Water Act, the OFT has a duty to refer to the Competition Commission mergers or proposed mergers between two or more water enterprises where the value of the turnover of the water enterprise being taken over, or the value of the turnover of each of the water enterprises belonging to the person making the takeover, exceeds £10 million. In determining whether such a matter operates, or may be expected to operate, against the public interest, the Competition Commission must assess whether the merger prejudices Ofwat's ability to make comparisons between different water companies. If the Competition Commission decides there is a prejudicial outcome (i.e. that the merger has prejudiced, or may be expected to prejudice, the ability of Ofwat to make comparisons), it must decide whether action should be taken to remedy, mitigate or prevent that prejudice and, if so, what action. Remedies may be structural (total or partial prohibition of a proposed merger; total or partial divestiture of a completed acquisition) or behavioural, such as

amendments to a Regulated Company's licence (for instance regarding the provision of information) or a requirement to maintain separate management. In deciding on remedies, the Competition Commission has regard to any relevant customer benefits (in the form of lower prices, higher quality, greater choice or innovation) of the merger under consideration. The Competition Commission takes the final decision on remedial action, and this decision can be appealed to the CAT by any person sufficiently affected by the decision. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU merger regime although the Competition Commission may (protecting a national "**legitimate interest**") still investigate the effect on the comparator principle.

In cases of an acquisition of a Regulated Company by a company which is not already a Regulated Company or where the special merger water regime does not otherwise apply, general merger control rules apply. These may call for discussion with the OFT as well as Ofwat. The OFT has the power to investigate any merger within the jurisdiction of the United Kingdom. The OFT must refer the transaction to the Competition Commission for further investigation if the arrangement could be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services. In its investigations, the OFT will consult with Ofwat.

The Secretary of State in certain limited circumstances may also refer a merger to the Competition Commission to investigate whether the arrangement could be expected to operate against the public interest. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU's merger regime.

Market Investigation Regime

The monopoly regime is also amended by the Enterprise Act and replaced with a market investigation regime. Broadly, this enables Ofwat, the OFT and (under a reserve power), ministers to refer similar situations to the Competition Commission. Investigations under this regime can inquire into markets where it appears that competition has been prevented, restricted or distorted by the structure of a market (or any aspect of its structure), the conduct of persons supplying or acquiring goods or services who operate within it, or the conduct of such persons' customers, but where there has been no obvious breach of the prohibitions on anti-competitive agreements or arrangements or abuse of a dominant position under the Competition Act 1998 or Article 81 or 82 of the EC Treaty. The Competition Commission will also be responsible for remedies (which may include structural break up). However, where there are public interest considerations, the Secretary of State may intervene and may remedy any adverse effects in the public interest.

Customers' Interests

General

Ofwat is responsible for protecting the interests of customers. It monitors the performance and level of service of Regulated Companies and the implementation of a "**guaranteed standards**" scheme in respect of customer care.

Consumer Council for Water

The Water Act introduced a new independent consumer council for water consumers (known as "**CC Water**") whose role is to provide information of use to consumers and to promote the interests of all water consumers. CC Water, which came into being on 1 October 2005, replaced WaterVoice, which had previously fulfilled a similar role. CC Water operates through 10 regional consumer council committees, which typically meet monthly and comprise a Chair and about 10 members. The Council comprises the national Chair (currently Dame Yve Buckland), seven members who chair CC Water Committees, four non-executive members and the Chief Executive (currently Tony Smith).

Guaranteed Standards

The guaranteed standards scheme is underpinned by regulations made under sections 38(2) and 95(2) of the WIA, which prescribe standards of performance in connection with water supply and wastewater

services in relation to matters such as the keeping of appointments with customers, dealing with enquiries and complaints from customers, giving notice of interruption of supply, installation of meters and flooding from sewers.

If a Regulated Company does not meet any of the prescribed standards, under the guaranteed standards scheme, the customer is entitled to compensation, normally in the region of £20 for domestic customers and £20 or £50 for business customers (although, in the case of sewer flooding, it can be up to £1,000) within 10 working days of the incident. The availability of such compensation is in addition to the availability of any other remedy the customer may have.

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 will include the Senior Debt Providers that enter into or accede 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 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 will be 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 will give certain undertakings in the STID which serve to maintain the integrity of these arrangements.

Secondary Market Guarantors

Any Eligible Secondary Market Guarantor that has entered into secondary market financial guarantee arrangements in respect of any Class A Unwrapped Bonds or any Secured TWUF Bonds and that wishes to become a Class A DIG Representative in respect of such Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds may deliver a notice to the Security Trustee and, in the case of Class A Unwrapped Bonds, the Bond Trustee or, in the case of Secured TWUF Bonds, the relevant TWUF Bond Trustee (an "**FG Covered Bond Notice**") in accordance with the terms of, and in the form scheduled to, the STID. An FG Covered Bond Notice must contain (i) a representation from the Eligible Secondary Market Guarantor that it is an Eligible Secondary Market Guarantor; and (ii) a certification from such Eligible Secondary Market Guarantor that, pursuant to the secondary market financial guarantee arrangements that it has entered into with a Class A Unwrapped Bondholder or, as the case may be, a Secured TWUF Bondholder, it is authorised to vote under proxy or, as the case may be, direct the vote in respect of Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds (together with a certification of the Outstanding Principal Amount of such Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds as at the date of the FG Covered Bond Notice). Upon the delivery of an FG Covered Bond Notice to the Security Trustee and the Bond Trustee or, as the case may be, the relevant TWUF Bond Trustee, the relevant Eligible Secondary Market Guarantor will be required to accede to the STID as a "**Secondary Market Guarantor**" for the purposes of the

voting mechanisms described below. The STID will contain a covenant from each Secondary Market Guarantor that it will notify the Security Trustee and, in the case of Class A Unwrapped Bonds, the Bond Trustee or, in the case of Secured TWUF Bonds, the relevant TWUF Bond Trustee in writing in the event that its authorisation to vote under proxy or, as the case may be, direct the vote in respect of any Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds pursuant to the secondary market financial guarantee arrangements is revoked or no longer valid (a "**Notice of Disenfranchisement**"). In the absence of any Notice of Disenfranchisement in respect of a Secondary Market Guarantor, the Security Trustee and the Bond Trustee or, as the case may be, the relevant TWUF Bond Trustee will be entitled to assume that such Secondary Market Guarantor is authorised to vote in respect of the Class A Debt Instructing Group (as described below). Any Class A Unwrapped Bonds in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (*provided that* such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor) will constitute "**Class A FG Covered Bonds**" and any Secured TWUF Bonds in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (*provided that* such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor) will constitute "**Secured TWUF FG Covered Bonds**").

Modifications, Consents and Waivers

Subject to Entrenched Rights and Reserved Matters (which will always require the consent of all of the relevant Secured Creditors who are affected) (see the section "*Entrenched Rights and Reserved Matters*" below), the Security Trustee shall only agree to any modification of or grant any consent or waiver under the Finance Documents or (subject to restrictions during a Standstill Period) take Enforcement Action with the consent of or if so instructed by the Majority Creditors.

Subject to the Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" below), the Security Trustee may make modifications to the Finance Documents without the consent of any other Secured Creditor or any Secondary Market Guarantor, in the opinion of the Security Trustee, if such modifications are to correct manifest or proven errors, to comply with mandatory provisions of law or are of a formal, minor or technical nature.

Class A Debt Instructing Group

Both prior to and during any Standstill Period, after acceleration of the Secured Liabilities and upon any enforcement of the Security prior to repayment in full of the Class A Debt, only the Class A DIG Representatives voting in respect of the Outstanding Principal Amount of Qualifying Class A Debt that they represent will be eligible to exercise the rights of the Majority Creditors. Decisions of the Majority Creditors will bind all of the Secured Creditors and Secondary Market Guarantors in all circumstances, save for certain Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" below).

On and following the Initial Issue Date, the Class A DIG Representatives, which will together be entitled to vote on certain proposals as part of the "**Class A Debt Instructing Group**" or the "**Class A DIG**", will be comprised of the following representatives (each, a "**Class A DIG Representative**"):

- (a) in respect of each Sub-Class of Class A Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), the Financial Guarantor of such Sub-Class of Class A Wrapped Bonds;
- (b) in respect of each Sub-Class of Class A Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds) and each Sub-Class of Class A Unwrapped Bonds (excluding any Class A FG Covered Bonds (unless a Default Situation is subsisting)), the Bond Trustee;
- (c) in respect of the Secured TWUF Bonds (excluding any Secured TWUF FG Covered Bonds (unless a Default Situation is subsisting)), the relevant TWUF Bond Trustee;

- (d) in respect of each Class A FG Covered Bond and each Secured TWUF FG Covered Bond, the Secondary Market Guarantor in respect of such Class A FG Covered Bond or, as the case may be, Secured TWUF FG Covered Bond (unless a Default Situation is subsisting);
- (e) in respect of the Initial Credit Facility, the Initial Credit Facility Agent;
- (f) in respect of the Existing Authorised Credit Facilities, the Existing Authorised Credit Provider;
- (g) in respect of each Finance Lease, the relevant Finance Lessor;
- (h) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (g) above (excluding liabilities in respect of any Hedging Agreements or Liquidity Facilities) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the STID or the relevant Accession Memorandum to the STID and the CTA as the Class A DIG Representative.

Other Secured Creditors of Class A Debt that accede to the STID and the CTA after the Initial Issue Date may appoint their own representative to act as their Class A DIG Representative.

Each Class A DIG Representative will be required to provide an indemnity to the Security Trustee each time it votes as part of the Class A DIG irrespective of whether it is a Majority Creditor.

Unless a Default Situation has occurred and is continuing and no Emergency Instruction Notice has been served (see the section "*Emergency Instruction Procedure*" below), (i) the Bond Trustee shall not be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class A DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class; and (ii) no TWUF Bond Trustee shall be entitled to convene a meeting of any class of Secured TWUF Bonds to consider any proposal to be voted on by the Class A DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Secured TWUF Bonds.

In respect of:

- (i) any proposal that is the subject of an Entrenched Right or Reserved Matter in favour of the Bondholders; or
- (ii) any proposal following the occurrence of a Default Situation and for so long as a Default Situation is continuing,

a Secondary Market Guarantor will not form part of the Class A DIG and (i) the Class A DIG Representative in respect of all Class A Unwrapped Bonds (including Class A FG Covered Bonds) will be the Bond Trustee who will be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any such proposal; and (ii) the Class A DIG Representative in respect of the Secured TWUF Bonds (including Secured TWUF FG Covered Bonds) will be the relevant TWUF Bond Trustee who will be entitled to convene a meeting of any class of Secured TWUF Bonds to consider any such proposal.

Decisions of the Majority Creditors will be determined by votes on a "pound for pound" basis (based on the Outstanding Principal Amount of the Qualifying Class A Debt voted by the Class A DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class A DIG Representatives which have actually voted by the specified date for voting, which date must be not less than 10 Business Days (or in certain circumstances five Business Days) after the date the STID Directions Request is deemed to be given (or, where the Bond Trustee is a Class A DIG Representative and a Default Situation is continuing (subject to the Emergency Instruction Procedure — see the section "*Emergency Instruction Procedure*" below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders to seek directions) or, if earlier,

as soon as Class A DIG Representatives in respect of more than 50 per cent. of the Qualifying Class A Debt have voted in favour of the relevant proposal.

Class B Debt Instructing Group

Following repayment in full of the Class A Debt, the Class B DIG Representatives voting in respect of the Outstanding Principal Amount of Qualifying Class B Debt that they represent will be eligible to exercise the rights of the Majority Creditors. After repayment in full of the Class A Debt, decisions of such Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters that are fundamental to particular Secured Creditors. See the section "*Entrenched Rights and Reserved Matters*" below.

The Qualifying Class B Debt Providers 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**"):

- (a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), such Financial Guarantor;
- (b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Class B Wrapped Bonds) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; and
- (c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (b) above (excluding liabilities in respect of any Currency Hedging Agreements in relation to Class B Debt) or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum to the STID as the Class B DIG Representative.

Each Class B DIG Representative is required to provide an indemnity to the Security Trustee each time it votes as part of the Class B DIG irrespective of whether it is a Majority Creditor.

Secondary Market Guarantors will not participate in the Class B DIG.

Unless a Default Situation has occurred and no Emergency Instruction Notice has been served (see the section "*Emergency Instruction Procedure*" below) and is continuing, the Bond Trustee is not entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class B DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class.

Decisions of the Majority Creditors will be determined by votes on a pound for pound basis (based on the Outstanding Principal Amount of the Qualifying Class B Debt voted by the Class B DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class B DIG Representatives which have actually voted by the specified date for voting, which date must be not less than 10 Business Days (or in certain circumstances five Business Days) after the date the STID Directions Request is deemed to be given (or, where the Bond Trustee is a Class B DIG Representative and a Default Situation is continuing (subject to the Emergency Instruction Procedure — see the section "*Emergency Instruction Procedure*" below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class B DIG Representatives in respect of more than 50 per cent. of the Qualifying Class B Debt have voted in favour of the relevant proposal.

Voting by the Bond Trustee as DIG Representative of the Bondholders and the TWUF Bond Trustees as DIG Representatives of the Secured TWUF Bondholders

Where the Bond Trustee acts as the DIG Representative of some or all of the Wrapped Bondholders (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of those Wrapped Bonds) and/ or the Unwrapped Bondholders, the Bond Trustee may, both prior to a Default Situation and/or whilst a Default Situation is continuing, in its absolute discretion, vote on a STID Proposal or a DIG Proposal (without reference to any Bondholders) in respect of the aggregate Outstanding Principal Amount of some or all of such Sub-Classes of Bonds (excluding, prior to a Default Situation, any Class A FG Covered Bonds), but shall not, prior to a Default Situation, be entitled to convene a meeting of any Series, Class or Sub-Class of Bondholders to seek directions (except in respect of an Entrenched Right or Reserved Matter of such Series, Class or Sub-Class of Bondholders).

Additionally whilst a Default Situation is continuing, where the Bond Trustee acts as the DIG Representative in respect of Bonds, the Bond Trustee shall not be entitled to convene a meeting of the Bondholders to direct the Security Trustee by way of an Extraordinary Resolution of the relevant Sub-Class of Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See the section "*Emergency Instruction Procedure*" below.

Similarly, where the relevant TWUF Bond Trustee acts as the DIG Representative of some or all of the Secured TWUF Bondholders, the relevant TWUF Bond Trustee may, both prior to a Default Situation and/or whilst a Default Situation is continuing, in its absolute discretion, vote on a STID Proposal or a DIG Proposal (without reference to any Secured TWUF Bondholders) in respect of the aggregate Outstanding Principal Amount of some or all of such Secured TWUF Bonds (excluding, prior to a Default Situation, any Secured TWUF FG Covered Bonds), but shall not, prior to a Default Situation, be entitled to convene a meeting of any class of Secured TWUF Bondholders to seek directions (except in respect of an Entrenched Right or Reserved Matter of such Secured TWUF Bondholders).

Additionally whilst a Default Situation is continuing, where the relevant TWUF Bond Trustee acts as the DIG Representative in respect of Secured TWUF Bonds, the relevant TWUF Bond Trustee shall not be entitled to convene a meeting of the Secured TWUF Bondholders to direct the Security Trustee in accordance with an Extraordinary Resolution of the relevant class of Secured TWUF Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See the section "*Emergency Instruction Procedure*" below.

Emergency Instruction Procedure

Whilst a Default Situation is subsisting, 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 $66\frac{2}{3}$ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt (or following the repayment in full of the Class A Debt, 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 the EIN Signatories' reasonable opinion, unless such action is taken within the timeframe specified in the Emergency Instruction Notice, the interests of the EIN Signatories would be materially prejudiced.

Hedge Counterparties

Each Hedge Counterparty is or will be a Secured Creditor party to the STID and the CTA and each Hedging Agreement to hedge the currency of any Class A Debt or to hedge interest rates constitutes or will constitute Class A Debt or, if entered into to hedge the currency of any Class B Debt, Class B Debt.

The Hedge Counterparties will not form part of the Class A DIG or the Class B DIG. However, except in relation to certain amounts payable by the Issuer and/or TWUF and/or TWUL under any Currency Hedging Agreement in relation to Class B Debt, all fees, interest and principal payable by the Issuer and/or TWUF and/or TWUL (as the case may be) to the Hedge Counterparties will rank in the Payment Priorities senior to or *pari passu* with interest or principal payments on the Class A Bonds. See the sections "*Cash Management*" and "*Hedging Agreements*" below.

Liquidity Facility Providers

Each Liquidity Facility Provider is or will be a Secured Creditor party to the STID and the CTA and each Liquidity Facility Agreement constitutes or will constitute Class A Debt.

The Liquidity Facility Providers will not form part of the Class A DIG. However, fees, interest and principal payable to the Liquidity Facility Providers will rank in the Payment Priorities senior to interest and principal payments on the Class A Bonds. See the sections "*Cash Management*" and "*The Liquidity Facilities*" below.

Finance Lessors

Each Finance Lessor will be a Secured Creditor party to the STID and all amounts arising under the Finance Leases will constitute Class A Debt.

Authorised Credit Providers

The Existing Authorised Credit Provider and the Initial Credit Facility Providers will constitute Class A Debt Providers and will form part of the Class A DIG.

Standstill

The STID will provide for an automatic standstill of the claims of the Secured Creditors against TWUL, TWUF and the Issuer (the "**Standstill**") immediately following notification to the Security Trustee of an Event of Default (other than an Event of Default under any Hedging Agreement with respect to a Hedge Counterparty under such Hedging Agreement) and for so long as any Senior Debt is outstanding.

The Standstill is designed to reduce or postpone the likelihood of a Special Administration Order being made against TWUL.

During the Standstill Period:

- (a) 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 the Security granted by the Issuer, TWUF or TWUL;
- (b) the Security granted by TWH may be enforced at any time by the Security Trustee at the direction of the Majority Creditors;
- (c) save as provided in sub-paragraphs (a) and (b) above, no Enforcement Action may be taken by any Secured Creditor; and
- (d) any monies received by TWUL, TWUF or the Issuer will be applied in accordance with the cash management provisions contained in the CTA (see the section "*Cash Management*" below)

and in accordance with the Payments Priorities (see the section "*Cash Management – Debt Service Payment Account*" below).

The period of the Standstill in respect of any Event of Default relating to TWUL and/or TWUF and/or the Issuer (the "**Standstill Period**") will be 18 months unless the Standstill Period is automatically extended beyond 18 months (see the section "*Standstill Extension*" below) or any of the following occur prior to the expiry of the relevant Standstill Period:

- (a) an order is made for the Special Administration of TWUL or any steps are taken to commence insolvency proceedings against the Issuer, TWUF or TWUL other than proceedings that are commenced by the Security Trustee;
- (b) (during the first 18 months of the Standstill Period) Class A DIG Representatives in respect of $66\frac{2}{3}$ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Class A Debt) Class B DIG Representatives in respect of $66\frac{2}{3}$ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class B Debt vote to terminate the Standstill Period (see the section "*Standstill Extension*" below); or
- (c) the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period.

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

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

Standstill Extension

The Standstill Period shall automatically be extended beyond 18 months:

- (a) for a further 120 days unless Class A DIG Representatives in respect of 50 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 120 day period to terminate the Standstill Period;
- (b) following the period referred to in sub-paragraph (a), for a further 60 days unless Class A DIG Representatives in respect of $33\frac{1}{3}$ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 60 day period to terminate the Standstill Period; and
- (c) following the period referred to in sub-paragraph (b), for successive periods each of 60 days unless Class A DIG Representatives in respect of 10 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during each such further 60 day period to terminate the Standstill Period and a vote shall be taken of the relevant Class A DIG Representatives on the expiry of each subsequent period of 60 days for so long as the Standstill Period continues as to whether the Standstill Period should continue for a further period of 60 days.

The Bond Trustee shall not form part of the Class A DIG in respect of any vote to terminate the Standstill Period, unless directed or requested to vote in such manner (i) by an Extraordinary Resolution of the relevant Sub-Class of Class A Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of such Sub-Class of Wrapped Bonds) or Class A Unwrapped Bonds or (ii) in writing by Bondholders holding not less than 25 per cent. of the Outstanding Principal Amount of the relevant Sub-Class of Class A Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of such Sub-Class of Wrapped Bonds) or Class A Unwrapped Bonds.

When the Class A Debt has been fully repaid, the rights to terminate the Standstill Period as described above shall be vested in the Class B DIG Representatives.

The Standstill Period in respect of any Event of Default will terminate upon the date of the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period.

Enforcement

Following an Event of Default and for so long as it is continuing, the Majority Creditors may direct the Security Trustee to enforce the Security created by TWH; following the termination of a Standstill Period (except under (c) of "*Standstill*" above), the Majority Creditors may direct the Security Trustee to enforce the Security created by TWUL, TWUF and the Issuer.

Subject to certain matters and to certain exceptions, following an enforcement, any proceeds of enforcement or other monies held by the Security Trustee under the STID (excluding monies credited to the Excluded Accounts) will be applied by the Security Trustee in accordance with the Payment Priorities (see the section "*Debt Service Payment Account*" below).

Excluded Accounts

Although pursuant to the Security Agreement, TWUL, the Issuer and TWUF will create first fixed charges over the Excluded Accounts in favour of the Security Trustee, the Security Documents will provide that on and following an Acceleration of Liabilities (other than a Permitted Lease Termination, Permitted Hedge Termination, Permitted EIB Compulsory Prepayment Event or Permitted Share Pledge Acceleration), all monies held in any Swap Collateral Account, the Issuer's O&M Reserve Account and the Debt Service Reserve Accounts will be held by the Security Trustee on trust for the relevant Hedge Counterparty or guarantor thereof that has provided collateral for its obligations or, as the case may be, the relevant Liquidity Facility Providers whose commitments have been drawn to fund the Issuer's O&M Reserve Account or, as the case may be, the Debt Service Reserve Accounts and in the proportions that their respective drawn amounts under the relevant O&M Reserve Facility Agreement or, as the case may be, DSR Liquidity Facility Agreements bear to the balance on the O&M Reserve Account or, as the case may be, the Debt Service Reserve Accounts.

Accession of Additional Secured Creditors

The STID requires that, to the extent that TWUL and/or the Issuer wishes any Authorised Credit Provider (or, in respect of Bonds, its Secured Creditor Representative) or other person to obtain the benefit of the Security, such Authorised Credit Provider or other person (other than Bondholders) must sign an Accession Memorandum whereby it agrees to be bound by the terms of the STID and the CTA, including those provisions which prohibit individual Secured Creditors from taking action without the consent of the Majority Creditors.

Entrenched Rights and Reserved Matters

Modifications, consents and waivers will be agreed by the Security Trustee, in accordance with votes of the Majority Creditors, subject to Entrenched Rights and Reserved Matters. Such modifications, consents and waivers will be binding on all of the Secured Creditors and Secondary Market Guarantors, subject to Entrenched Rights and Reserved Matters. No Entrenched Right or Reserved Matter will operate to override the provisions contained in the CTA which allow TWUL (following a Periodic Review or as a result of any material change in the regulation of the water industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default *provided that* the Security Trustee (acting on the instructions of the Majority Creditors) agree and the relevant ratings set out in definition of Rating Requirement (in relation to the Bonds) have been affirmed by all Rating Agencies then rating the Bonds.

Lists of Entrenched Rights and Reserved Matters are contained in the section "*Entrenched Rights*" and "*Reserved Matters*", below.

Entrenched Rights

Entrenched Rights are rights that cannot be modified or waived in accordance with the STID without the consent of the Secured Creditor having the Entrenched Right.

The Entrenched Rights of the Class A Debt Providers will include any proposed modification to, or consent or waiver under or in respect of the STID or any other Finance Document which:

- (a) the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities under or in connection with the STID or any other Finance Document;
- (b) (i) would release any of the Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document or (ii) would alter the rights of priority of, or the enforcement by, the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein;
- (c) would change or would relate to the Payment Priorities;
- (d) would change or would relate to the Entrenched Rights or the Reserved Matters or, where applicable, the relevant Class A Debt Provider's Entrenched Rights or Reserved Matters;
- (e) would change or would relate to (i) the definitions of "Class A DIG", "Class A DIG Representatives", "Class A FG Covered Bond", "DIG Proposal", "DIG Directions Request", "Secured TWUF FG Covered Bond", "Majority Creditors", "Qualifying Class A Debt", "Restricted Payment", "Restricted Payment Condition", "Secondary Market Guarantor" 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 Senior Debt required to terminate a Standstill or (iv) in the case of the Existing Authorised Credit Provider, the definitions of "Existing Authorised Credit Facilities", "Existing Authorised Credit Finance Contracts", "EIB Amendment Agreement" or "Permitted EIB Compulsory Prepayment Event";
- (f) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Class A Debt Provider's Class A Debt or of any fees or premia in respect thereof or would reduce the amount of principal, interest or Make-Whole Amount payable in respect of such Class A Debt or the amount of any fees or premia in respect thereof;
- (g) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of Class A Debt or 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 any fees or premia in respect thereof;
- (h) would result in the exchange of the relevant Class A Debt Provider's Class A Debt for, or the conversion of such Class A Debt into, shares, bonds or other obligations of any other person;
- (i) would change or would relate to the currency of payment due under the relevant Class A Debt Provider's Class A Debt (other than due to the United Kingdom joining the euro);
- (j) (subject to (k) below) would change any Event of Default or any Trigger Event relating to financial ratios (excluding any change permitted by the CTA following a Periodic Review or any material change in the regulation of the water and sewerage industry in the United Kingdom (see the section "*Common Terms Agreement — General*" below)) or credit rating downgrade;
- (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, credit rating downgrade or

financial ratios or the making of Restricted Payments (see the section "*Common Terms Agreement*" under "*Trigger Events*" and "*Events of Default*" below);

- (l) would change or would relate to the rights of the relevant Class A Debt Provider to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, Taxes, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class A Debt Provider); or
- (m) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Class A Debt Provider's Class A Debt in the event of the imposition of withholding taxes.

The Entrenched Rights of the Class B Debt Providers mirror those rights applicable for Class A Debt Providers *mutatis mutandis* and more specifically will include any proposed modification to, or consent or waiver under or in respect of the STID or any other Finance Document which:

- (a) the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities under or in connection with the STID or any other Finance Document;
- (b) (i) would release any of the Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document or (ii) would alter the rights of priority of, or the enforcement by, the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein;
- (c) would change or would relate to the Payment Priorities;
- (d) would change or would relate to the Entrenched Rights or the Reserved Matters or, where applicable, the relevant Class B Debt Provider's Entrenched Rights or Reserved Matters;
- (e) would change or would relate to (i) the definitions of "Class B DIG", "Class B DIG Representatives", "DIG Proposal", "DIG Directions Request", "Majority Creditors", "Restricted Payment", "Restricted Payment Condition", "Qualifying Class B Debt", 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 Senior 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 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 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) or credit rating downgrade;

- (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, credit rating downgrade 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 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 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 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 subject always to the requirement of the assignee or transferee to accede to the CTA and the STID as a Secured Creditor;
- (f) in the case of each Finance Lessor, to inspect the relevant Equipment, to make calculations under the financial schedules (or equivalent provisions thereunder relating to the calculations of Rental or termination sums) to the relevant Finance Lease and to terminate the relevant Finance Lease provided such termination is a Permitted Lease Termination;
- (g) in the case of the Existing Authorised Credit Provider, to demand for prepayment under an Existing Authorised Credit Facility provided that such demand is a Permitted EIB Compulsory Prepayment Event;
- (h) in the case of each Hedge Counterparty, to terminate the relevant Hedging Agreement provided such termination is a Permitted Hedge Termination; and

- (i) in the case of any Secured Creditor, to accelerate their claims, to the extent necessary to apply proceeds of enforcement of the Share Pledge provided by TWH pursuant to the terms of the Security Documents.

The Bond Trustee, the Security Trustee, the Finance Lessors, the Hedge Counterparties and the Financial Guarantors each have certain additional Reserved Matters which each has reserved to itself to decide. For the Bond Trustee and each Financial Guarantor, these include rights vested in it pursuant to the terms of the Bond Trust Deed and the Financial Guarantee. For the Security Trustee, these include rights vested in it pursuant to the terms of the STID.

Substitution of the Issuer

The Security Trustee shall implement any STID Proposal proposing the substitution in place of the Issuer, or any substituted Issuer, as the principal debtor under the Finance Documents of any other company incorporated in any other jurisdiction meeting the criteria for such a single purpose company established from time to time by the Rating Agencies. The implementation of any such proposal is an Entrenched Right of the Bond Trustee and each Financial Guarantor.

Intercompany Loan Arrangements

Issuer/TWUL Loan Agreements and the TWUF/TWUL Loan Agreements

All Financial Indebtedness raised by the Issuer from time to time (whether through the issue of Bonds or raising of debt under Authorised Credit Facilities) 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**"). As such, the Issuer/TWUL Loan Agreements are a source of funds capable of servicing any payments due and payable on the Bonds. The Financial Indebtedness of TWUF (as at the Initial Issue Date, being incurred through the issue of the TWUF Bonds on their respective issue dates) from time to time (including under the DSR Liquidity Facilities (other than amounts necessary to fund the Debt Service Reserve Accounts) and any other Authorised Credit Facilities) will be backed by an aggregate matching debt obligation owed by TWUL to TWUF under a loan agreement (each a "**TWUF/TWUL Loan Agreement**"). The advances under the initial TWUF/TWUL Loan Agreement to be entered into on the Initial Issue Date (the "**Initial TWUF/TWUL Loan Agreement**") will relate to the principal amount of the relevant class of TWUF Bonds outstanding as at the Initial Issue Date and any other Financial Indebtedness of TWUF raised from time to time under any Authorised Credit Facilities.

The aggregate nominal amount of all Financial Indebtedness raised through the issue of Bonds, the Initial Credit Facility or any other debt under any other Authorised Credit Facilities (other than amounts necessary to fund the Debt Service Reserve Accounts of the Issuer) by the Issuer on the Initial Issue Date will be lent by the Issuer to TWUL under the initial Issuer/TWUL Loan Agreement to be entered into on the Initial Issue Date (the "**Initial Issuer/TWUL Loan Agreement**"). The proceeds of the Initial Issuer/TWUL Loan Agreement will be applied by TWUL on the Initial Issue Date in (a) in the case of the Initial Credit Facility, in funding the working capital, capital expenditure and general corporate purposes of TWUL in accordance with the conditions described below under "*Additional Resources Available - Initial Credit Facility*"; (b) in funding the distribution of dividends and/or upstream loans to facilitate repayment by Kemble Water Limited of amounts owing under the Bridge Facility Agreement (see Chapter 4 "*Description of the TWU Financing Group - The Thames Water Group*" above); (c) making certain fee payments; (d) in establishment of any required reserves; and (e) in meeting general corporate purposes.

The proceeds of all Financial Indebtedness raised by the Issuer through the further issue of Bonds or raising of debt under any Authorised Credit Facility (other than amounts necessary to fund the Debt Service Reserve Accounts) will be lent to TWUL under further Issuer/TWUL Loan Agreements.

All advances to be made by the Issuer under the Issuer/TWUL Loan Agreements and by TWUF under the TWUF/TWUL Loan Agreements will be in Sterling (other than advances under the Initial TWUF/TWUL Loan Agreement relating to the JPY Bonds) and in amounts and at rates of interest set out in the relevant Final Terms or Authorised Credit Facility or, if hedged by the Issuer or TWUF in

accordance with the Hedging Policy (see the section "*Hedging*" below), at the hedged rate plus, in each case (other than advances by TWUF in respect of the outstanding principal amount of the TWUF Bonds), a small margin and 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 will be secured pursuant to the Security Agreement, and such obligations will be guaranteed by TWH in favour of the Security Trustee, who will hold the benefit of such security on trust for the Secured Creditors (including the Issuer and TWUF) on the terms of the STID.

The Issuer's obligations to repay principal and pay interest on the Bonds are intended to be met primarily from the payments of principal and interest received from TWUL under each Issuer/TWUL Loan Agreement and, where it has hedged its exposure to such payments under a Hedging Agreement, from payments received by the Issuer under such Hedging Agreement.

TWUL agrees to make payments to each of the Issuer and TWUF free and clear of any withholding on account of tax unless it is required by law to do so – in such circumstances TWUL will gross-up such payments.

In the CTA, TWUL makes certain representations and warranties (as more fully set out under "*Common Terms Agreement – Representations*" below) to each Finance Party.

Each Issuer/TWUL Loan Agreement and each TWUF/TWUL Loan Agreement 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 Joint Arrangers and the Trustee's legal advisers, the Issuer's legal advisers and certain fees due to liquidity providers. On the Initial Issue Date, TWUL will pay to the Issuer an amount equal to the upfront fees and expenses of the foregoing and certain other fees payable by the Issuer in connection with the establishment of the Programme and the issue of the Bonds on the Initial Issue Date.

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

In respect of the period after the Initial Issue Date, TWUL will, by way of facility fees under the Issuer/TWUL Loan Agreements, pay to the Issuer amounts equal to the amounts required by the Issuer to pay its ongoing fees, expenses and any and all sums due to any Financial Guarantor under the Finance Documents. Similarly, TWUL will pay to TWUF the amounts required by TWUF to pay its ongoing fees and expenses under the TWUF Bonds by way of facility fees under the TWUF/TWUL Loan Agreements.

Common Terms Agreement

General

Each of the Existing Finance Lessors, the Existing Hedge Counterparties, the Security Trustee, the Cash Manager, the Standstill Cash Manager, the Liquidity Facility Providers, the Initial Credit Facility Providers, the Existing Authorised Credit Provider, each Obligor, the Bond Trustees, the TWUF Bond Trustee, the Principal Paying Agent, the Transfer Agent, the Registrar and others will, on or before the Initial Issue Date, enter into a common terms agreement (the "**Common Terms Agreement**" or "**CTA**"). The CTA will set out the representations, covenants (positive, negative and financial), Trigger Events and Events of Default which will apply to each Authorised Credit Facility (including for the avoidance of doubt the Issuer/TWUL Loan Agreements, the TWUF/TWUL Loan Agreements, the Existing Finance Leases, the Existing Authorised Credit Facilities, the Hedging Agreements and any other document entered into in connection with an Authorised Credit Facility).

It will be 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 will further provide 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 will allow 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 will also set out the cash management arrangements to apply to the TWU Financing Group (see the section "*Cash Management*" below). It will be 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 to be 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 will make a number of representations in respect of itself to each Finance Party. These representations 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:

- (i) its corporate status, power and authority and certain other legal matters;
- (ii) non-conflict with documents binding on it, constitutional documents or laws;
- (iii) 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);
- (iv) no Default or Potential Trigger Event being outstanding or will result from entry into and performance under the Transaction Documents;
- (v) it obtaining all necessary consents and approvals;
- (vi) 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;
- (vii) maintaining all necessary insurances;
- (viii) 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);

- (ix) the conduct of its business not violating any judgment, law or regulation;
- (x) the due payment of all taxes save to the extent any tax payment is being disputed in good faith;
- (xi) 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;
- (xii) subject to reservations of law, the claims of the Secured Creditors ranking prior to the claims of its other unsecured and unsubordinated creditors;
- (xiii) 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;
- (xiv) save as otherwise disclosed herein, no litigation proceedings current, pending or threatened;
- (xv) compliance with environmental laws;
- (xvi) all arrangements or contracts with any person being on arm's length basis;
- (xvii) 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;
- (xviii) in the case of TWUL, it having the necessary Intellectual Property Rights to carry on its Appointed Business;
- (xix) in the case of TWUL, it being unaware of any Special Administration Order having been made in respect of it; and
- (xx) in the case of TWUL, assumptions used in respect of financial ratio calculations having been made in good faith, after careful consideration and materially consistent with Applicable Accounting Principles and applicable Good Industry Practice.

Additionally, each of TWH, TWUF and the Issuer will represent that its activities have been limited prior to the Initial Issue Date to support their bankruptcy remote status.

Covenants

The CTA will contain certain positive, negative and financial covenants from each of the Obligors. A summary of the covenants which will (amongst others) be 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

- (i) TWUL will undertake to provide, from time to time, certain information including:
 - (a) information, which would reasonably be expected to be material to an Authorised Credit Provider, which it supplies to Ofwat;
 - (b) details of proposed material changes to the Instrument of Appointment or constitutional documents;
 - (c) details of any investigations or proceedings;
 - (d) any notice (including an Enforcement Order) from any governmental authority or industry regulator;

- (e) a semi-annual Investors' Report;
 - (f) certain other material information about the business and financial condition of each of the Obligor as may be requested or required to be delivered from time to time; and
 - (g) information in relation to any announcement of K.
- (ii) Each Obligor will undertake to provide, within certain agreed timeframes, certain information including:
- (a) its audited financial statements and (in respect of TWUL only) its unaudited interim financial statements;
 - (b) copies of all material documents despatched by it to its creditors (other than in the ordinary course of its business);
 - (c) details of any litigation or other proceedings which are current, threatened or pending;
 - (d) 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;
 - (e) notification of any Default or Potential Trigger Event;
 - (f) details of any event which could give rise to an insurance claim in excess of 0.25 per cent. of RCV; and
 - (g) details of any event which would be reasonably likely to have a Material Adverse Effect and, where relevant, the Periodic Information relating to it.
- (iii) Each of TWUL and the Issuer will undertake, among other things:
- (a) 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;
 - (b) to permit the Security Trustee to investigate the calculations contained in any compliance certificate; and
 - (c) to deliver a certificate upon request by the Security Trustee certifying that no Default or Potential Trigger Event is outstanding or if a Default or Potential Trigger Event is outstanding of which it is aware, specifying the Default or Potential Trigger Event and the steps (if any) taken or proposed to be taken to remedy such event.

General Covenants

- (i) Each Obligor will undertake, among other things:
- (a) to maintain its corporate status;
 - (b) 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;
 - (c) 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);

- (d) 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 the Permitted Reorganisation);
- (e) not to incur any Financial Indebtedness other than Permitted Financial Indebtedness or, in the case of TWUL, Permitted Volume Trading Arrangements;
- (f) 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);
- (g) 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;
- (h) not to change its constitutional documents without the prior written consent of the Security Trustee;
- (i) 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;
- (j) except for in connection with a Permitted Tax Loss Transaction 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 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;
- (k) not to compromise or settle any claim, litigation or arbitration without prior notification to the Security Trustee;
- (l) (A) other than the Existing Non-Compliances, to obtain, maintain and comply with all applicable laws, regulations and orders and obtain and maintain all governmental and regulatory consents, licences, authorisations and approvals (including the Instrument of Appointment) necessary for the conduct of its business as a whole in accordance with Good Industry Practice and (B) to do nothing which would lead to the termination, suspension or revocation of any such consents, licences, authorisations and approvals;
- (m) to pay all Taxes for which an Obligor is primarily liable;
- (n) 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;
- (o) 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 or (in the case of TWUL) pursuant to a Finance Lease; or (ii) dispose of any of its receivables (other than Permitted Disposals) or (iii) purchase any asset on terms providing for (or likely to have the substantive effect of) a retention of title or a conditional sale, in

circumstances where the primary purpose is raising Financial Indebtedness or financing the acquisition of an asset; nor (B) enter into any such transaction in (A) above where the primary purpose is not raising finance to the extent that the consideration in respect of such transaction is not received in cash in full at the time and exceeds 0.1 per cent. of RCV in aggregate at any time;

- (p) 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;
 - (q) not to change its tax residence from the United Kingdom; or
 - (r) 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.
- (ii) Additionally, TWH will undertake, amongst other things:
- (a) 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;
 - (b) not to own any asset or incur any liabilities except for the purposes of carrying on its business in accordance with the Finance Documents;
 - (c) 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
 - (d) not to make any Restricted Payments otherwise than in accordance with the Finance Documents and out of monies received by it, directly or indirectly, from TWUL which have been properly paid by TWUL as a Distribution or as set out under the CTA.
- (iii) TWUL will further undertake to maintain at least 3 non-executive directors who are not employees or directors of any Associate (save as disclosed in writing to the Security Trustee on the Initial Issue Date or as otherwise approved by the Security Trustee).
- (iv) Additionally, TWUL will undertake, among other things:
- (a) to ensure that the nature of its business is limited to the Business;
 - (b) 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;
 - (c) 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;
 - (d) 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;
 - (e) to comply in all material respects with the Instrument of Appointment;
 - (f) not to agree to any amendment or variation of the Instrument of Appointment;

- (g) to comply with applicable relevant Environmental Laws and Environmental Approvals applicable to it and to notify the Security Trustee of any Environmental Claims;
 - (h) to effect and maintain those insurances in connection with its Business as are required under the CTA;
 - (i) 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;
 - (j) to ensure it has adequate financial and management resources to enable it to discharge its core obligations under the Instrument of Appointment;
 - (k) (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) ensure that 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;
 - (l) as soon as reasonably practicable, to apply to Ofwat for an IDOK when permitted under the Instrument of Appointment where it would be prudent and in the best commercial interests of TWUL to do so;
 - (m) 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.
- (v) Additionally, TWUL, TWUF and the Issuer will undertake, among other things:
- (a) 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 by each of the Rating Agencies as the Security Trustee and TWUL shall agree, in each case, of Investment Grade;
 - (b) only to:
 - (1) implement Deferrals of K at a time when no Event of Default is subsisting;
 - (2) 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:
 - (A) in the case of a Distribution only, the payment is made after a board meeting has been held approving such Distribution or dividend;
 - (B) the aggregate amount of any such payment(s) that may be paid is no higher than the Proposed Payment Amount (as defined below);
 - (C) on the date of such payment:
 - (a) no drawings are outstanding under the Liquidity Facilities, other than Standby Drawings;

- (b) (i) in respect of any Calculation Date falling prior to 31 March 2010 (the "**Ratio Step Date**") the Senior RAR, as certified by the Issuer, TWUF and TWUL in the Compliance Certificate most recently delivered to the Security Trustee and each Rating Agency, is less than or equal to 0.72:1 or, following the occurrence of the Permitted Unsecured Financial Indebtedness Trigger, 0.75:1; and (ii) in respect of any Calculation Date falling after the Ratio Step Date, the Senior RAR, as certified by the Issuer, TWUF and TWUL in the Compliance Certificate most recently delivered to the Security Trustee and each Rating Agency, is less than or equal to 0.82:1 or, following the occurrence of the Permitted Unsecured Financial Indebtedness Trigger, 0.85:1, for each Test Period (after deducting an amount equal to the proposed payment(s) (the "**Proposed Payment Amount**") from available cash);
 - (c) 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
 - (d) (A) 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 (B) 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 (C) 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;
- (c) in the case of TWUL, not to make an Intra-Group Debt Service Distribution unless certain conditions are satisfied;
- (d) to inform the Security Trustee of any change to the Auditors, as soon as reasonably practicable;
- (e) 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
- (f) not to change its financial year end without the prior written consent of the Security Trustee.
- (vi) Additionally, each of the Issuer, TWUF and, in the case of paragraph (b) below, TWUL will undertake, among other things:
 - (a) to restrict its business to certain matters in accordance with the Finance Documents;
 - (b) 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:

- (i) the aggregate nominal outstanding Financial Indebtedness of the TWU Financing Group which has an expected maturity falling within any period of 24 consecutive months shall not exceed 20 per cent. of RCV for the time being; and
- (ii) the aggregate nominal outstanding Financial Indebtedness of the TWU Financing Group that has an expected maturity falling within the period from one Periodic Review to the next Periodic Review shall not exceed 40 per cent. of RCV for the time being (adjusted and increased proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than 5 years);

and, for the purposes of this paragraph (b), "expected maturity" shall include any Financial Indebtedness that would, in the ordinary course, be expected to be repaid in full as a result of any Subordinated Step-up Fee Amounts or other extraordinary payment being required to keep such Financial Indebtedness outstanding;

- (c) to use all reasonable endeavours to procure and maintain the admission of all listed Bonds for trading on the London Stock Exchange;
- (d) 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;
- (e) to give notice of certain events to the Bond Trustee and Bondholders in relation to the Bonds and payments in respect of the Bonds;
- (f) 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
- (g) to give notice of certain events in relation to the Bonds to the Rating Agencies.

Financial Covenants

- (i) TWUL will undertake, among other things:
 - (a) 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:
 - (1) the Class A ICR for each Test Period;
 - (2) the Senior Adjusted ICR for each Test Period;
 - (3) the Class A Adjusted ICR for each Test Period;
 - (4) the Senior Average Adjusted ICR for each Test Period;
 - (5) the Class A Average Adjusted ICR for each Test Period;
 - (6) the Senior RAR for each Test Period; and
 - (7) the Class A RAR for each Test Period; and

- (b) at each Periodic Review and on making each IDOK application, to apply to Ofwat for a price determination which, in the reasonable opinion of the TWUL directors, would allow, at a minimum, a credit rating the same as the original credit rating in respect of the Class A Unwrapped Bonds and an underlying rating the same as the original underlying rating in respect of the Class A Wrapped Bonds, in each case from each of the Rating Agencies.
- (ii) Each of the Issuer and TWUF will further undertake (and TWUL will procure that each of the Issuer and TWUF will undertake) to maintain DSR Liquidity Facilities available for drawing which (when aggregated with all amounts (including the value of any Authorised Investments) standing to the credit of the Debt Service Reserve Accounts of the Issuer and TWUF) are not less than the cash amount of interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) payable on the Class A Debt, the Unsecured TWUF Bond Debt and the Class B Debt for the next succeeding 12 month period (after taking into account the impact on interest rates of such Class A Debt, Unsecured TWUF Bond Debt and Class B Debt of any Hedging Agreement then in place); and
- (iii) The Issuer will further undertake 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 will also set out certain Trigger Events which will 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:

- (i) *Financial Ratios*
 - (a) the Senior RAR for any Test Period (i) prior to the Ratio Step Date is estimated to be more than 0.75:1 ; and (ii) from and including the Ratio Step Date is estimated to be more than 0.90:1;
 - (b) the Class A RAR for any Test Period is or is estimated to be more than 0.75:1;
 - (c) the Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1;
 - (d) the Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1;
 - (e) the Senior Average Adjusted ICR for any Test Period is or is estimated to be less than 1.2:1; or
 - (f) the Class A Average Adjusted ICR for any Test Period is estimated to be less than 1.4:1.
- (ii) *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.
- (iii) *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:

- (a) Variances in Out-turn Inflation, including variances in real construction prices from assumed construction prices;
- (b) Variances that TWUL has reasonable expectation will be recovered through a Recognised Ofwat Mechanism by no later than the next Periodic Review Effective Date, and provided that if such recovery is not made in full by the next Periodic Review Effective Date or, if prior to such date TWUL is notified in writing by Ofwat that such Variance will not be recovered in full as part of the Final Determination for the next Periodic Review Period, the Variance shall be reversed to the extent of such non-recovery and shall not be an allowable adjustment for the purposes of this paragraph (iii);
- (c) 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
- (d) Variances attributable to investment in Major Capex Projects, where such projects were not reflected in the existing Periodic Review, but are the subject of discussions with Ofwat and TWUL provides a written confirmation from Ofwat that such Variance will (subject to any terms or conditions contained in such confirmation) be added to the RCV by no later than the next Periodic Review Effective Date, and provided that if such recovery is not made in full by the next Periodic Review Effective Date or, if prior to such date TWUL is notified in writing by Ofwat that such Variance will not be recovered in full as part of the Final Determination for the next Periodic Review Period the Variance shall be reversed to the extent of such non-recovery and shall not be an allowable adjustment for the purposes of this paragraph (iii).

(iv) *Liquidity for Capital Expenditure and Working Capital*

If, as at any Calculation Date, the aggregate of (i) TWUL's operating cash flows including monies standing to the credit of the Operating Accounts available or forecast to be available to meet Capital Expenditure and working capital requirements for the next 12 months; and (ii) Authorised Credit Facilities (excluding Liquidity Facilities) available to be drawn in the next 12 month period, is less than the aggregate of (a) TWUL's forecast Capital Expenditure projected for the next 12 month period; (b) TWUL's forecast working capital requirements projected for the next 12 month period; and (c) the amount the Issuer, TWUF or, as the case may be, TWUL estimates, in its reasonable opinion, is equal to the net amount payable by the Issuer, TWUF or, as the case may be, TWUL to a Hedge Counterparty following the exercise of an option to terminate a Treasury Transaction as permitted by the Hedging Policy.

(v) *Drawdown on DSR Liquidity Facilities and O&M Reserve Facilities*

If, at any time, the aggregate of all amounts available for drawing under the DSR Liquidity Facilities and all amounts standing to the credit of the Debt Service Reserve Accounts of the Issuer and TWUF is less than an amount equal to the next 12 months interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) payable in respect of Class A Debt, the Unsecured TWUF Bond Debt and Class B Debt (although it will not be a Trigger Event if it is triggered as a direct result of a banking error and remedied by such amount being repaid within three Business Days without such repayment being funded by a further drawing under a DSR Liquidity Facility).

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

- (vi) *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.
- (vii) *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.
- (viii) *Termination of Instrument of Appointment*
The giving of a notice to terminate the Instrument of Appointment.
- (ix) *Event of Default*
An Event of Default is continuing.
- (x) *Referral regarding Shipwreck Clause*
A referral is made under Paragraph 13 of Condition B of the Instrument of Appointment (or any successor or equivalent paragraph) as a result of any materially adverse event.
- (xi) *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.
- (xii) *Adverse Governmental Legislation*
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).
- (xiii) *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.
- (xiv) *Conduct of Business*
The Permitted Non-Appointed Business Limits are breached.
- (xv) *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).
- (xvi) *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:

- (i) no Obligor may make Restricted Payments and TWUL must not declare and must stop any implementation of any Deferrals of K;
- (ii) TWUL must provide such information 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 which must then be implemented by TWUL;
- (iii) the Security Trustee may 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 measures;
- (iv) 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
- (v) restriction on payments by TWUL under Outsourcing Agreements and/or Capex Contracts with Associates which do not comply with the Outsourcing Policy.

Trigger Event Remedies

At any time when the Issuer, TWUF or TWUL (as the case may be) believes that a Trigger Event has been remedied in accordance with the detailed provisions of the CTA, it must serve notice on the Security Trustee to that effect, and the Security Trustee must respond confirming that the relevant Trigger Event has, in its reasonable opinion, been remedied or setting out its reasons for believing that such Trigger Event has not been remedied (in which case, such event will continue to be a Trigger Event until such time as the Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

Events of Default

The CTA will contain 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. 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) an 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) an Obligor other than TWUL ceasing or threatening to cease to carry on its business or TWUL ceasing or threatening to cease to carry on the Appointed Business;
- (n) litigation being started against an Obligor or its assets or revenues which would be reasonably likely to be adversely determined and, if so adversely determined, would have a Material Adverse Effect;
- (o) the Class A ICR being less than 1.60:1;
- (p) the Senior RAR being more than (i) prior to the Ratio Step Date, 0.85:1; or (ii) from and including the Ratio Step Date, 0.95:1); and
- (q) the Class A Adjusted ICR is less than 1:1.

In respect of each Event of Default requiring any action or discretion on the part of the relevant creditor, the Security Trustee will (save in respect of certain Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" above)) act in accordance with the instructions of the Majority Creditors in accordance with the STID (see the section "*Security Trust and Intercreditor Deed*" above).

Immediately upon the notification to the Security Trustee of an occurrence of an Event of Default, a Standstill Period will commence in accordance with the STID (see the section "*Security Trust and Intercreditor Deed – Standstill*" above).

Conditions Precedent

The conditions precedent to among other things the signing of the CTA, the Initial Issue Date and to the issue of Bonds after the Initial Issue Date will all be set out in a conditions precedent agreement (the "**CP Agreement**") as agreed between, among others, the Bond Trustee, the Security Trustee and the Obligors.

Cash Management

Accounts

The CTA will require TWUL to open and maintain the following Accounts with the Account Bank:

- (a) certain Operating Accounts;
- (b) an O&M Reserve Account;
- (c) a Debt Service Payment Account; and
- (d) a Compensation Account.

Each of the Issuer and TWUF will be required to open and maintain the following Accounts with the Account Bank:

- (a) a Transaction Account; and
- (b) a Class A Debt Service Reserve Account.

The Issuer will also be required to open and maintain a Class B Debt Service Reserve Account and an O&M Reserve Account with the Account Bank.

TWH shall open and maintain one chequing account only with the Account Bank.

Each of the Issuer, TWUF and TWUL may also open and maintain an account (each a "**Swap Collateral Account**") into which any collateral provided by a Hedge Counterparty or guarantor thereof shall be deposited upon the relevant trigger occurring for the provision of such collateral to support the obligations of the Hedge Counterparty or guarantor under the terms of the appropriate Hedging Agreement.

Each of the above accounts together with any other bank account of any Obligor are collectively referred to as the "**Accounts**". Each of the Accounts will be held with the Account Bank pursuant to the Account Bank Agreement. Each Obligor will agree 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 will ensure that all of its revenues (other than any Income on Authorised Investments which shall be credited to the Account from which the relevant Authorised Investment was made) will be paid into an Operating Account.

The Operating Accounts shall be 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 Initial 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 will be 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 or TWUF, on-lent to TWUL under an Issuer/TWUL Loan Agreement or, as the case may be, the TWUF/TWUL Loan Agreements, as and when required and permitted by the Finance Documents.

Capital Expenditure of TWUL will initially be partially financed by the Capital Expenditure Facility of the Initial 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 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.

On the Initial Issue Date and annually thereafter on 31 March of each year (or, if such day is not a Business Day, the immediately preceding Business Day) TWUL will calculate the Annual Finance Charge for the Pre-Test Period and for the period of 12 months commencing on the immediately following, 1 April respectively, and details of such calculation will be included in the next following Investors' Report.

Under the CTA, TWUL will on the opening of business on the first Business Day of each month until the Discharge Date transfer from the Operating Accounts to the Debt Service Payment Account an amount (the "**Monthly Payment Amount**") equal to 1/12th of TWUL's Annual Finance Charge for the relevant twelve month period (or, in the case of the Pre-Test Period, £17.3 million (the "**PTP Amount**")) **provided that** the aggregate of any interest accruing on and credited to the Debt Service Payment Account will be treated as a prepayment of future Monthly Payment Amounts payable during the relevant twelve month period or future PTP Amounts during the Pre-Test Period, as applicable. Accordingly, the Monthly Payment Amounts due for the remaining months of such twelve month period or the PTP Amounts due for the remaining months of the Pre-Test Period, as applicable shall be reduced *pro rata* to reflect such prepayment.

TWUL will recalculate the Annual Finance Charge and the Monthly Payment Amount or PTP Amount, as applicable, if during the course of any relevant twelve month period or the Pre-Test 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 or, as the case may be, the revised PTP Amount for the remaining months in the relevant twelve month period or the Pre-Test 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 will be 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 will 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 shall, on the Initial Issue Date, direct that the PTP Amount will be paid into the Debt Service Payment Account. TWUL shall 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 will provide that, on each Payment Date, monies credited to the Debt Service Payment Account shall be applied by TWUL in the following order for the purpose of enabling the following payments ("**Permitted Payments**") to be made in the following order of priority (the "**Payment Priorities**") without double counting (*provided that*, any amounts applied by TWUL in directly discharging an obligation of TWUL or the Issuer shall be treated as having simultaneously discharged TWUL's corresponding obligation to pay on such Payment Date to the Issuer or, as the case may be, TWUL facility fees, interest, principal, indemnity amounts and other sums due to the Issuer or, as the case may be, TWUL under the Issuer/TWUL Loan Agreements or, as the case may be, the

TWUF/TWUL Loan Agreements and *provided further that*, the payment of any retained margin of the Issuer under the Issuer/TWUL Loan Agreements and TWUF under the TWUF/TWUL Loan Agreements shall be paid at items (vi) and (xii) and shall be transferred to the Transaction Account of the Issuer or, as the case may be, TWUF):

- (i) *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);
- (ii) *second, pro rata*, according to the respective amounts thereof (a) in satisfaction of TWUL's or, as the case may be, the Issuer's obligation to pay such amounts, in or towards payment of the remuneration, costs and expenses of the Security Trustee and the Bond Trustee; and (b) in satisfaction of TWUF's obligation to pay such amounts, payment of the remuneration, costs and expenses of the TWUF Bond Trustees in respect of the Secured TWUF Bonds;
- (iii) *third, pro rata*, according to the respective amounts thereof in or towards satisfaction of: (a) the Issuer's obligation to pay such amounts, the remuneration, costs and expenses of the Agent Bank and each Paying Agent; (b) the Issuer's and the TWUF's obligation to pay such amounts, the remuneration, costs and expenses of the Account Bank under the Account Bank Agreement and the remuneration, costs and expenses of each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (c) the Issuer's obligation to pay such amounts, the remuneration, costs and expenses of each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; (d) the Issuer's and/or TWUL's obligations to pay such amounts, the remuneration, costs and expenses of each Facility Agent and each Authorised Credit Facility Provider under the relevant Authorised Credit Facility and the Standstill Cash Manager; (e) the remuneration, costs, expenses and fees of each Financial Guarantor pursuant to the relevant G&R Deed; and (f) TWUF's obligation to pay such amounts, the costs and expenses of TWUF in respect of the Secured TWUF Bonds being all amounts due by way of remuneration, costs and expenses to any issuing and paying agent, registrar, transfer agent or other agents in respect of the Secured TWUF Bonds;
- (iv) *fourth, pro rata*, according to the respective amounts thereof, in or towards satisfaction of: (a) the Issuer's and TWUF's obligations to pay all amounts of fees, interest and principal (other than any Subordinated Liquidity Facility Amounts) due or overdue to each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (b) the Issuer's obligation to pay all amounts of fees, interest and principal (other than Subordinated Liquidity Facility Amounts) due or overdue to each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; and (c) all amounts of interest and principal due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility to the extent that the Financial Indebtedness was incurred to fund a New Money Advance;
- (v) *fifth, pro rata*, according to the respective amounts thereof, in or towards satisfaction of all scheduled amounts payable to each Hedge Counterparty under any Interest Rate Hedging Agreement (subject to paragraphs (vi) and (vii));
- (vi) *sixth, pro rata*, according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest (including the Lease Reserve Amounts and Adjusted Lease Reserve Amounts), recurring fees and commitment commissions due or overdue in respect of the Class A Debt (other than any Subordinated Step-up Fee Amounts and Subordinated Authorised Loan Amounts); (b) any unscheduled amounts (including termination amounts) due and payable to each Hedge Counterparty under any Interest Rate Hedging Agreement (except to the extent required to be paid at paragraph (xvi) below) or any reserves in respect thereof required to be paid to the Compensation Account or any amounts due from TWUL by reference to broken funding costs under and in accordance with an Existing Finance Lease in respect of any fixed interest funding obtained or assumed to be obtained by the Finance Lessor under the terms thereof; (c) all scheduled amounts (other than principal exchange or final exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt and (subject to paragraph (xvi) below and following termination of a Standstill

Period other than due to remedy or waiver by the Majority Creditors of, or the revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (d) all amounts of underwriting commissions due or overdue in respect of Class A Debt; and (e) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class A Wrapped Bonds guaranteed by such Financial Guarantor;

- (vii) *seventh, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of Class A Debt (including, in respect of Finance Leases, those amounts (including any rental and capital sums) payable in respect thereof which do not fall within paragraph (vi) above and do not fall due as a result of the operation of any indemnity or fee reimbursement provision of a Finance Lease); (b) all principal exchange or final exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (c) any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt (except to the extent required to be paid at paragraph (xvi) below) or any reserves in respect thereof required to be paid to the Compensation Account; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class A Wrapped Bonds guaranteed by such Financial Guarantor;
- (viii) *eighth*, in or towards satisfaction of any Make-Whole Amount due and payable on the Class A Debt;
- (ix) *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;
- (x) *tenth, pro rata* according to the respective commitments of the Issuer and TWUF under their respective DSR Liquidity Facilities, in payment to (a) the Class A Debt Service Reserve Account of the Issuer; and (b) the Class A Debt Service Reserve Account of TWUF until the sum of the balance thereon and the aggregate available commitments under the DSR Liquidity Facilities is equal to the Class A Required Balance;
- (xi) *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;
- (xii) *twelfth, pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) interest and commitment commissions due or overdue in respect of the Class B Debt (other than any Subordinated Step-up Fee Amounts); (b) all scheduled amounts (other than principal exchange or final exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt and (subject to paragraph (xvi) below and following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or the revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; (c) all amounts of underwriting commissions due or overdue in respect of the Class B Debt; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class B Wrapped Bonds guaranteed by such Financial Guarantor;
- (xiii) *thirteenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of principal due or overdue in respect of the Class B Debt; (b) all principal exchange or final exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; (c) any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt (except to the extent required to be paid at paragraph (xvi) below) or any reserves in respect thereof required to be paid to the Compensation Account; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the

relevant G&R Deed in respect of payments of principal on any Class B Wrapped Bonds guaranteed by such Financial Guarantor;

- (xiv) *fourteenth*, in or towards satisfaction of any Make-Whole Amount due and payable on the Class B Debt;
- (xv) *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;
- (xvi) *sixteenth, pro rata* according to the respective amounts thereof, in or towards satisfaction of:
(a) any other amounts (not included in paragraphs (vi) and (vii) above), due and/or overdue to the Finance Lessors; and (b) any termination payment due or overdue to a Hedge Counterparty under any Hedging Agreement which arises as a result of a default by such Hedge Counterparty or as a result of a downgrade in the credit rating of such Hedge Counterparty following any failure by the Hedge Counterparty to comply with the applicable downgrade provisions set out in the relevant Hedging Agreement (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the Issuer 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);
- (xvii) *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;
- (xviii) *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;
- (xix) *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;
- (xx) *twentieth*, (to the extent required in the CTA) the balance shall remain in the Debt Service Payment Account.

If at the end of any Test Period, there are amounts standing to the credit of the Debt Service Payment Account ("**Excess Funds**") as a result of either (a) interest credited to and accruing on the Debt Service Payment Account or (b) payment of amounts into the Debt Service Payment Account in excess of the Annual Finance Charge for such Test Period, such Excess Funds will be treated and applied as a prepayment of future Monthly Payment Amounts due in the succeeding Test Period.

The Payment Priorities set out in paragraphs (i) to (xx) inclusive will not apply to (a) the proceeds of any further borrowing of Permitted Financial Indebtedness which are required by the terms of such borrowing to be applied in repayment or prepayment of any existing Financial Indebtedness of the TWU Financing Group to the extent permitted by the CTA or (b) any return of collateral or premium or up front payment on replacement of a Hedging Agreement which has been terminated in the circumstances contemplated in paragraph (xvi) above which will be paid to the relevant Hedge Counterparty directly. In no circumstance shall TWUL be 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 will, 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 will 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 from any Operating Account 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. If after making any required transfers from the Operating Accounts and/or the Debt Service Reserve Accounts the balance on the Debt Service Payment Account would be insufficient to pay any Scheduled Debt Service falling due for payment at items (i)-(vi), (ix), (xii) or (xix) of the Payment Priorities (excluding any termination payments under any Hedging Agreements), the Issuer and/or, in the case of a shortfall relating to the obligations of TWUF, TWUF shall promptly request a drawing under the relevant DSR Liquidity Facility for payment on the following Payment Date in an amount equal to the shortfall.

Debt Service Reserve Accounts and Issuer's O&M Reserve Account

TWUL will (subject to and in accordance with the Payment Priorities) transfer monies standing to the credit of the Debt Service Payment Account to the Class A Debt Service Reserve Accounts (of the Issuer and TWUF), the Class B Debt Service Reserve Account (of the Issuer) or the Issuer's O&M Reserve Account, as required.

Each of the Issuer and, in the case of the relevant Class A DSR Liquidity Facility, TWUF will be required to drawdown the whole of a Liquidity Facility Provider's commitment if that Liquidity Facility Provider (i) ceases to have the Minimum Short-Term Rating; or (ii) fails to renew its commitment at the end of the term of the relevant Liquidity Facility and whose commitment is not replaced by another Liquidity Facility Provider. The Issuer or, as the case may be, TWUF must deposit the proceeds of each such drawdown into its Debt Service Reserve Account (in the case of a drawdown under a DSR Liquidity Facility Agreement) or the Issuer's O&M Reserve Account (in the case of a drawdown by the Issuer under any O&M Reserve Facility).

No monies may be withdrawn from the Debt Service Reserve Accounts or the O&M Reserve Account except as permitted by the relevant Liquidity Facility Agreement (see the "*Liquidity Facilities*" below) and the CTA or if the Issuer delivers, prior to any withdrawal, a certificate to the Security Trustee and the Account Bank that following the making of such withdrawal (a) in the case of the Debt Service Reserve Accounts, the aggregate of the amounts standing to the credit of the Debt Service Reserve Accounts, and available for drawing under the DSR Liquidity Facilities is at least equal to the Required Balance and (b) in the case of the Issuer's O&M Reserve Account, the aggregate of the O&M Reserve and amounts available for drawing under the O&M Facilities is at least equal to the O&M Reserve Required Amount.

TWUL will agree to procure that on any Payment Date and (in respect of paragraph (a) only) any Unsecured TWUF Bond Payment Date (save for any date upon which a drawing is to be made under a DSR Liquidity Facility or out of the Debt Service Reserve Accounts to make a payment into the Debt Service Payment Accounts):

- (a) the aggregate of (i) all amounts available for drawing under the DSR Liquidity Facilities; and (ii) all amounts standing to the credit of the Class A Debt Service Reserve Accounts (including the value of any Authorised Investments) are equal to the next 12 months' interest and other finance charges forecast to be due on the Class A Debt and Unsecured TWUF Bond Debt of the TWU Financing Group (the "**Class A Required Balance**"); and

- (b) the aggregate of (i) all amounts available for drawing in respect of Class B Debt under the DSR Liquidity Facilities; and (ii) all amounts standing to the credit of the Class B Debt Service Reserve Accounts (including the value of any Authorised Investments) (after deducting all amounts required to satisfy the Class A Required Balance) are equal to the next 12 months' interest and other finance charges forecast to be due on the Class B Debt (other than any Subordinated Step-up Fee Amounts) of the TWU Financing Group (the "**Class B Required Balance**" and, together with the Class A Required Balance, the "**Required Balance**").

Compensation Account

The Common Terms Agreement will require 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 will be 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 shall continue to apply until the commencement of a Standstill Period. The CTA will provide that, so long as a Standstill Period continues unremedied, and provided no Enforcement Action (other than a Permitted Share Pledge Acceleration) has occurred, TWUL shall cease to be the Cash Manager and will be replaced by the Standstill Cash Manager, who shall assume control of the Accounts, pay operating expenditure when it falls due and, on a monthly basis, calculate the aggregate of all payments falling to be made during the next following period of 12 months and shall calculate all net revenues received and/or expected to be received over that 12 month period. To the extent that the forecast revenues are insufficient (after paying all relevant operating expenditure) to pay the aggregate of all payments falling to be made during the next 12 months, the Standstill Cash Manager shall notionally apply those forecast revenues to each category in accordance with the Payment Priorities until the revenue that is forecast to be available is insufficient to meet all of the payments falling to be made within such 12 month period in any sub-paragraph of the Payment Priorities (the "**Shortfall Paragraph**") and shall, in respect of those categories of payment falling within the Shortfall Paragraph, divide the anticipated revenues remaining pro-rata between those amounts. Throughout the Standstill Period, any payments falling to be made within a category of payment falling within a Shortfall Paragraph shall be satisfied by a payment of the pro-rata share of that payment so calculated and no payments falling in a category which (in accordance with the Payment Priorities) falls after a Shortfall Paragraph shall be made (and the balance of the payments not made shall remain outstanding).

The proceeds of enforcement of the Security which is permitted to be enforced during a Standstill Period will also be applied in accordance with the Payment Priorities. In circumstances where such enforcement occurs during a Standstill Period or following termination of a Standstill the proceeds of enforcement will be applied in accordance with the above Payment Priorities but excluding in these circumstances payments under sub-paragraphs (i), (x), (xi) and (xv) thereof.

Additionally during a Standstill Period the Annual Finance Charge pertaining to any Finance Leases shall be adjusted in accordance with the terms of the relevant Finance Lease or Addendum relating thereto.

Security Agreement

Security

Each Obligor will, on or before the Initial Issue Date, enter into the security agreement (the "**Security Agreement**") with the Security Trustee pursuant to which TWUL will guarantee the obligations of each other Obligor under the Finance Documents and TWUL, TWUF and the Issuer will guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee as security trustee for the Secured Creditors. Each Obligor will secure 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 will be subject to the WIA, the Instrument of Appointment and requirements thereunder. The Security Agreement will, to the extent applicable, incorporate the provisions of the CTA and be subject to the STID.

The security constituted by the Security Agreement will be expressed to include, amongst other things:

- (i) first fixed charges over:
 - (a) the shares in TWUL, TWUF and the Issuer;
 - (b) 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;
 - (c) all present and future plant, machinery, office equipment, computers, vehicles and other chattels;
 - (d) all moneys standing to the credit of each Obligor's bank accounts;
 - (e) certain Intellectual Property Rights owned by each Obligor;
 - (f) each Authorised Investment;
 - (g) 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;
 - (h) all present and future book debts;
 - (i) all benefit in respect of certain insurances; and
- (ii) an assignment of each Obligor's right in respect of all Transaction Documents; and
- (iii) a first floating charge of the whole of the undertaking of each Obligor,

except that the Security will 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 5 "*Risk Factors – Certain Legal Considerations – Security*" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales – Restrictions on the granting of security*".

Prior to an Event of Default, notices of assignment will only be given to the relevant counterparty to the Transaction Documents that are assigned and to the insurers with whom TWUL has taken out insurance in accordance with the requirements of the CTA (subject to certain agreed exceptions). Following an Event of Default, notices of assignment will be given in respect of any assigned contract or asset as requested by the Security Trustee upon the instructions of the Majority Creditors.

Any Permitted Subsidiary acquired or established by TWUL following the Initial Issue Date will be 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, TWUF and the Issuer under the Finance Documents
Fixed and floating charge over its property, assets and undertaking, all subject to the WIA and the Instrument of Appointment	TWUL	Guarantees all obligations of TWUF and the Issuer under the Finance Documents
Fixed and floating charge	TWUF	Guarantees all obligations of TWUL and the Issuer under the Finance Documents
Fixed and floating charge	ISSUER	Guarantees all obligations of TWUL and TWUF under the Finance Documents

Financial Guarantor Documents

The Financial Guarantees of Wrapped Bonds

The form of Financial Guarantee to be issued by each Financial Guarantor (upon fulfilment or waiver by the Relevant Financial Guarantors of certain conditions precedent to be contained in the CP Agreement) in respect of the issue of Wrapped Bonds to be issued under the Programme will be set out in a supplement to this Prospectus.

Upon an early redemption of the relevant Wrapped Bonds or an acceleration of the relevant Wrapped Bonds, each Relevant Financial Guarantor's obligations will continue to be to pay the Guaranteed Amounts as they fall Due for Payment (each as defined in the Relevant Financial Guarantor's Financial Guarantee) on each Payment Date. None of the Financial Guarantors will be obliged under any circumstances to accelerate payment under its Financial Guarantees. However, if it does so, it may do so in its absolute discretion in whole or in part, and the amount payable by the Relevant Financial Guarantor will be the Outstanding Principal Amount (or *pro rata* amount that has become due and payable) of the relevant Wrapped Bonds together with accrued interest (excluding always the FG Excepted Amounts). Any amounts due in excess of such Outstanding Principal Amount (and any

accrued interest thereon) will not be guaranteed by any Financial Guarantor under any of the Financial Guarantees.

The Bond Trustee as party to each of the Financial Guarantees will have the right to enforce the terms of such Financial Guarantees, and any right of any other person to do so is expressly excluded.

Guarantee and Reimbursement Deeds

On each relevant Issue Date, the Issuer, TWUF and TWUL will enter into a guarantee and reimbursement deed (each a "**G&R Deed**") with the relevant Financial Guarantor, pursuant to which the Issuer will be obliged, among other things, to reimburse such Financial Guarantor in respect of the payments made by it under the relevant Financial Guarantee and to pay, among other things, any financial guarantee fee and fees and expenses of such Financial Guarantor in respect of the provision of the relevant Financial Guarantee. Insofar as a Financial Guarantor makes payment under the relevant Financial Guarantee in respect of Guaranteed Amounts (as defined in such Financial Guarantee), it will be subrogated to the present and future rights of the relevant Wrapped Bondholders against the Issuer in respect of any payments made.

Additional Resources Available

Existing Finance Leases

TWUL is party to the Existing Finance Leases with the Existing Finance Lessors. This section summarises the principal provisions contained in those Existing Finance Leases. The Finance Documents also permit TWUL to enter into new Finance Leases in the future, subject to certain limits, and provided that any new Finance Lessor accedes to the CTA and the STID.

Supply of Equipment

Certain leasing companies have acquired equipment and TWUL has sold or otherwise procured the supply of certain equipment to leasing companies (or, in respect of Equipment which constitutes Fixtures (as defined below), has been reimbursed for capital expenditure in respect thereof), in each case for the purpose of TWUL leasing such equipment from the leasing companies.

The Equipment acquired by or sold or supplied to such leasing companies consists mainly of plant and machinery and other equipment used in the water and sewerage operations of TWUL. The Equipment is comprised of moveable equipment ("**Moveables**") and fixed equipment (that is Equipment which is so installed or affixed to real estate so as to become part of that real estate as a matter of law ("**Fixtures**")).

Lease Agreements

Each of the Existing Finance Lessors leases the Equipment sold or supplied to TWUL on the terms and subject to the conditions set out in the lease agreements referred to below, between TWUL as lessee and the respective leasing company as lessor (each an "**Existing Finance Lease**" and together the "**Existing Finance Leases**").

TWUL is currently party to Existing Finance Leases with the following Existing Finance Lessors: (a) R.B. Leasing (September) Limited (referred to herein as "**RBLS**" and the Existing Finance Lease under which it is lessor referred to herein as the "**RBS Existing Finance Lease**"); (b) RBSSAF (28) Limited ("**RBSSAF**") (previously known as SG Leasing (Finance) Limited) (as assignee of the "lessor" rights thereunder from SG Leasing (March) Limited ("**SGLM**"), which in turn received such rights from Cheriton Resources 13 Limited ("**CRL**", previously known as Abbey National March Leasing (1) Limited)) (the relevant Existing Finance Lease referred to herein as the "**First RBSSAF Existing Finance Lease**") and (c) RBSSAF (as assignee of the "lessor" rights thereunder from CRL) the relevant Existing Finance Lease referred to herein as the "**Second RBSSAF Existing Finance Lease**") (the First RBSSAF Existing Finance Lease and the Second RBSSAF Existing Finance Lease are collectively referred to herein as the "**RBSSAF Existing Finance Leases**").

It should be noted that the "lessor" entity under each of the RBSSAF Existing Finance Leases has evolved considerably. In 2002 the then current lessor under each of these transactions (being CRL) was sold by Abbey National Treasury Services plc ("ANTS") to Cheriton Resources 2 Limited ("CRL 2", part of the Eurotunnel Group). Subsequently in 2006 these leasing transactions were assigned to SGLM and RBSSAF (both subsidiaries of Société Générale). Most recently the RBSSAF Existing Finance Lease held by SGLM was assigned to RBSSAF and the shares in RBSSAF were subsequently purchased by Royal Bank Leasing Limited (part of the RBS group). Broadly on each change of ownership and lease transfer, residual indemnity and payment rights in respect of the periods prior to the relevant change of ownership or lease assignment as the case may be, have been retained by the selling group or transferring the lessor.

In relation to Equipment leased under the Existing Finance Leases that constitutes Fixtures, because, as a matter of real estate law, no title can pass to the relevant Existing Finance Lessors (or, if it does, that title reverts to the landowner on affixation to real estate of the relevant Equipment), TWUL and each relevant Existing Finance Lessor has elected for capital allowance purposes to deem that ownership of the Fixtures is in that Existing Finance Lessor.

Lease Periods

The primary period under each of the RBSSAF Existing Finance Leases is 20 years from the relevant start date thereunder (being 1 April 1993 for the First RBSSAF Existing Finance Lease and 1 April 1995 for the Second RBSSAF Existing Finance Lease) and the leasing thereunder is automatically extended into a secondary period up to the fiftieth anniversary of the date of the relevant RBSSAF Existing Finance Lease (or until the expiry of the useful life of the Equipment leased thereunder, whichever is the earlier), subject to the right of TWUL to specify by notice at the end of the relevant primary period (and each annual anniversary of such date thereafter) that some or all of the Equipment leased thereunder shall terminate and shall no longer be subject to the terms of the relevant RBSSAF Existing Finance Lease.

Under the RBS Existing Finance Lease, the primary period for Equipment constituting Fixtures is 20 years from the 31 October 1998 and the leasing thereunder is automatically extended into a secondary period for a further 20 years (or until the expiry of the useful life of such Equipment, whichever is the earlier) subject to the right of TWUL to specify by notice at the end of the primary period (and each annual anniversary of such date thereafter) that some or all of such Equipment shall terminate and shall no longer be subject to the terms of the RBS Existing Finance Lease. In respect of Equipment constituting Moveables, the primary period under the RBS Existing Finance Lease is 10 years from 31 October 1998 and the leasing thereunder is automatically extended into a secondary period for a further 10 years (or until the expiry of the useful life of such Equipment, whichever is the earlier), subject to the right of TWUL to specify by notice at the end of the primary period (and each annual anniversary of such date thereafter) that some or all of such Equipment shall terminate and shall no longer be subject to the terms of the RBS Existing Finance Lease.

Subject to CTA and STID

Prior to the Initial Issue Date, each Existing Finance Lease will be amended so as to be subject to the CTA. In this way the representations, warranties, covenants and events of default set out in the CTA will apply in respect of the Existing Finance Lessors for each Existing Finance Lease. The Existing Finance Leases are also subject to the STID which regulates the claims of the Existing Finance Lessors against TWUL and termination and enforcement rights under the Existing Finance Leases. Certain of the material terms of the Existing Finance Leases (in addition to those incorporated in the CTA) are outlined below (see the section "*TWUL Obligations*").

Rental

TWUL is obliged to make regular rental payments ("**Rental**") under each Existing Finance Lease, payable annually in advance in the amounts determined in the relevant financial schedule to each such Existing Finance Lease. The Rental payment obligations are "hell and high water" payment obligations.

The primary period Rental payable under each of the Existing Finance Leases is calculated by reference to a number of assumptions and principles (including a specified assumed rate of interest). If any such assumption proves to be incorrect, the primary Rental payments under the relevant Existing Finance Lease are adjusted to levels that seek to (or, if all those Rentals have been paid additional Rentals or rebates of Rental are made in order to) preserve the relevant Existing Finance Lessor's agreed after-tax rate of return on its acquisition cost of the Equipment under that Existing Finance Lease.

The assumptions set out in each of the Existing Finance Leases are the type of tax and financial assumptions customarily found in leases of this kind and include, amongst other things, matters such as the rate of corporation tax, the rate of writing down allowances, the amount of group relief on tax losses which may be claimed by the lessor group and other changes in applicable law or regulation.

It should be noted that in respect of the RBSSAF Existing Finance Leases, TWUL has ongoing tax consultation obligations and repayment/rebate obligations in respect of the period prior to the sale of CRL to CRL 2. These broadly relate to historical tax assumptions proving incorrect and are owed to CRL and ANTS.

On the last day of the primary period under any Existing Finance Lease, TWUL is required to make the following payments:

- (i) a capital sum to the relevant Existing Finance Lessor, equal to the tax written-down value of the Equipment leased thereunder which comprises Fixtures and the leasing of which is continuing into the relevant secondary period: and
- (ii) an additional Rental to the relevant Existing Finance Lessor in respect of such Equipment leased thereunder which does not comprise Fixtures and the leasing of which is continuing into the relevant secondary period, such Rental being broadly such amount as is required to ensure that the relevant Existing Finance Lessor's surplus and invested funds are zero as at a specified final date. The RBS Existing Finance Lease extends this additional Rental to include Equipment constituting Fixtures and Specified Equipment (see the section "*Repossession of Moveables on Termination*" below), the leasing of which is continuing into secondary period thereunder.

The Rental payments payable during any secondary period under each Existing Finance Lease are also set out in the relevant financial schedule relating thereto. Broadly these are nominal sums.

General Payment Obligations

During the construction phase (or pre-primary period) under each Existing Finance Lease, certain commitment fees and non-utilisation fees were payable. These fees are no longer applicable.

Default interest is payable under each Existing Finance Lease in respect of any late payment.

If TWUL is required by law to make any withholding or deduction in respect of any payment under an Existing Finance Lease, then TWUL is required to pay such additional amounts as will result in the receipt by the relevant Existing Finance Lessor of such net amount that the relevant Existing Finance Lessor would have received if no such withholding or deduction had been required. Each Existing Finance Lease provides, in general terms, that if the relevant Existing Finance Lessor has received or has been granted a credit against, remission from or repayment of any tax which is attributable to such additional amounts payable by TWUL then the relevant Existing Finance Lessor shall reimburse such amount as will leave the Existing Finance Lessor after such reimbursement in no worse a position than it would have been if the additional amount had not been payable by TWUL.

Under each of the Existing Finance Leases, TWUL is obliged to pay, on demand, (i) all costs and expenses of the relevant Existing Finance Lessor in connection with the amendment or waiver of the Existing Finance Lease documents, (ii) all costs and expenses of such Existing Finance Lessor arising from its enforcement of its rights under the Existing Finance Leases and (iii) all costs and expenses of the relevant Existing Finance Lessor incurred in respect of a breach by TWUL of its representations,

warranties and covenants. Additionally TWUL is obliged to pay all costs, expenses, losses etc. and outgoing in connection with the Equipment leased thereunder.

TWUL Obligations

In addition to the representations and warranties made by TWUL, and the covenants applying to TWUL, under the CTA, the Existing Finance Leases also impose certain customary finance lease representations, warranties and covenants on TWUL.

In particular, TWUL is typically required, in accordance with the Existing Finance Leases, amongst other things, (1) to maintain, service, repair and overhaul the Equipment, (2) to notify the Lessor of any damage or loss in relation to the Equipment which is likely to impair TWUL's ability to comply with its obligations under the relevant Existing Finance Lease, or the repair of which is likely to cost in excess of certain thresholds, (3) to maintain all necessary certificates, licences and permits required for the use of the Equipment and in any event to use the Equipment in accordance with TWUL's customary practice as a prudent and responsible water and sewerage undertaker, and otherwise in accordance with all applicable laws and regulations, (4) not to remove, replace or alter the Equipment other than as permitted under the relevant Existing Finance Lease, (5) to maintain (in some instances up to and including the third anniversary of the sale or disposal of such Equipment) third party liability insurances and loss and damage insurance, in respect of the Equipment in accordance with good and prudent water and sewage industry practise in the United Kingdom and (6) not to permit or take certain actions which prejudice the relevant Existing Finance Lessor's interest in the Equipment or the relevant Existing Finance Lease.

General Indemnities

Each Existing Finance Lease contains a general indemnity whereby TWUL agrees to indemnify the relevant Existing Finance Lessor against, inter alia, any and all losses, payments or damages (i) which TWUL has agreed to pay under the relevant Existing Finance Lease and which are claimed against and paid by the Existing Finance Lessor, (ii) incurred by the Existing Finance Lessor as a result of TWUL's failure to comply with its obligations under the relevant Existing Finance Lease, (iii) relating to, or arising out of, *inter alia*, the condition, use and operation of, or otherwise in connection with, the Equipment and (iv) arising out of any infringement of intellectual property rights. The indemnities do not apply in the case of any losses which result from the negligence or wilful default of the Existing Finance Lessor.

The indemnities in favour of each Existing Finance Lessor are stated to continue notwithstanding the termination of the leasing of the relevant Equipment, the repudiation of the relevant Existing Finance Lease or the expiry of the relevant lease period.

It should be noted that under each of the RBSSAF Existing Finance Leases, the general indemnity provisions were effectively extended also to cover the financier and lease administrator of CRL. These provisions remain in place.

Tax Indemnities

Under each of the Existing Finance Leases, TWUL is required to indemnify the Existing Finance Lessors for (broadly) all tax liabilities arising in relation thereto other than corporation tax payable on the Rental and termination payments, either by way of variation of the Rental payment amounts (see the section "*Rental*" above) or by contractual indemnity payments.

Additional Termination Provisions under Existing Finance Leases

Each of the Existing Finance Leases contains termination provisions in addition to the Events of Default set out in the CTA. These include the automatic termination of the hiring of any Equipment which is the subject of a total loss and, in respect of the RBS Existing Finance Lease only, the right of the Existing Finance Lessor to terminate if the Existing Finance Lease becomes invalid, ineffective or unenforceable for any reason, the result of which, in the reasonable opinion of the Existing Finance Lessor, materially and adversely prejudices the ability of TWUL to perform its obligations under the

RBS Existing Finance Lease. In these circumstances, subject to the terms of the CTA, the STID and the Existing Finance Leases (as amended and supplemented from time to time), the leasing of the Equipment shall (in the case of an event of total loss) or may, at the option of the Existing Finance Lessor (in the case the invalidity, ineffectiveness or unenforceability of the RBS Existing Finance Lease only) be terminated and the Existing Finance Lessor shall charge a termination sum, save that TWUL in each case will not make any payment if (i) an Acceleration of Liabilities has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment. If TWUL fails or is unable to make any prepayment in accordance with the CTA and the STID, an Event of Default will arise under the CTA and upon notice of that event to the Security Trustee the Standstill Period will automatically commence.

TWUL may voluntarily terminate the leasing of all or part (subject to specified minimum thresholds) of the Equipment under any Existing Finance Lease and pay, inter alia, all Rentals due thereunder in advance of the expiry of the relevant lease period providing that (i) no Acceleration of Liabilities has occurred and (ii) no Default Situation is subsisting or would occur as a result of such payment.

The Existing Finance Leases provide that upon termination, a termination payment becomes payable as calculated pursuant to the financial schedule attached to the relevant Existing Finance Lease. The termination payment payable is calculated by reference to a number of assumptions which if subsequently proven to be incorrect may give rise to a further payment or a rebate in the future.

In the Existing Finance Leases termination payments may vary according to the termination event which takes place and the date thereof. They are calculated by the production of a revised cash flow as at the date of the relevant termination based upon certain assumptions. Broadly, the termination payment will be an amount equal to (i) sums due and payable under the relevant Existing Finance Lease, (ii) an amount equal to the balance of the relevant Existing Finance Lessor's investment in the relevant Existing Finance Lease and so as to preserve the Existing Finance Lessor's net after-tax return, (iii) broken funding costs and (iv) in respect of the RBSSAF Existing Finance Leases only, a termination fee in respect of management time at £100 per hour (subject to indexation). Additionally there were termination premium provisions under each Existing Finance Lease, but these are no longer applicable.

Repossession of Moveables on Termination

To the extent the Existing Finance Leases relate to Fixtures there is no ability to repossess the relevant Equipment upon termination (save in limited circumstances under the RBS Existing Finance Leases in respect of "*Specified Equipment*" – see below).

Each Existing Finance Lease provides that upon termination of the hiring of Equipment which constitutes Moveables (hereinafter "**Moveable Equipment**") (and, in the case of the RBS Existing Finance Lease only, certain "fixed equipment" which is not then affixed to any real estate, "**Specified Equipment**"), the Existing Finance Lessor may (subject to the special administration provisions - see below) request redelivery of such Moveable Equipment or, where relevant, Specified Equipment, to be offered for sale. If the hiring of the Moveable Equipment (and, where relevant, the Specified Equipment) has been terminated and the relevant Existing Finance Lessor shall not have received all monies due under the relevant Existing Finance Lease, the Existing Finance Lessor shall have the sole right of determining the manner, timing and terms of such disposal and may, but shall not be obliged to, appoint TWUL as its agent for such sale. If the hiring of the Moveable Equipment (and, where relevant, the Specified Equipment) has been terminated and the relevant Existing Finance Lessor has received all monies due under the relevant Existing Finance Lease, TWUL shall be entitled to request that the relevant Existing Finance Lessor appoint TWUL as agent to sell the Moveable Equipment and, where relevant, the Specified Equipment and in each case the relevant Existing Finance Lessor shall reasonably consider such request. If the Moveable Equipment and, where relevant, the Specified Equipment, has not been sold within one year after termination of the hiring under the relevant Existing Finance Lease, the Existing Finance Lessor may require TWUL to dispose of the Moveable Equipment and, where relevant, Specified Equipment and TWUL shall be required to dismantle and sell as scrap such Equipment for the best price it can reasonably obtain. Following the sale or disposal of Moveable Equipment or, where relevant, Specified Equipment, the Existing Finance Lessor shall rebate (by way of rebate of Rentals) an amount equal to ninety nine and one half percent of the net proceeds of such

sale (provided that TWUL has paid all sums due under the Existing Finance Lease and termination has not been by reason of a total loss) to TWUL.

Notwithstanding the above, an Existing Finance Lessor may not repossess any Moveable Equipment or, under the RBS Existing Finance Lease, Specified Equipment, if an application for a special administration order has been made or a special administration order has been made.

Insurance and Total Loss

Each Existing Finance Lease provides that TWUL is to effect and maintain insurance against third party liability and loss of or damage to the Equipment in accordance with good and prudent water and sewage industry practice in the United Kingdom. Additionally there are a number of standard minimum requirements with which TWUL must ensure the insurances comply. TWUL has limited rights to reinsure itself with Isis Insurance Company Limited.

Upon a total loss of Equipment under any Existing Finance Lease, the leasing of such items thereunder will terminate and TWUL must pay a termination payment (from insurance proceeds or otherwise) within 120 days of the Equipment becoming a total loss, or, if earlier, on the date on which TWUL receives the insurance proceeds in full.

Under each Existing Finance Lease, TWUL bears the full risk of any loss or damage to the Equipment throughout the lease period.

Initial Credit Facility

The Issuer will enter into the Initial Credit Facility on or about the Initial Issue Date. Under this facility agreement, a revolving credit facility will be made available by the Initial Credit Facility Providers to the Issuer which will comprise:

- (a) a £200 million tranche to fund, pursuant to the Initial Issuer/TWUL Loan Agreement, the working capital requirements of TWUL (including, for the avoidance of doubt, the refinancing of debt) (the "**Working Capital Facility**"); and
- (b) a £550 million tranche, to be on-lent to TWUL pursuant to the Initial Issuer/TWUL Loan Agreement, to meet TWUL's capital expenditure requirements (in respect of capital expenditure relating to TWUL in accordance with the capex programme agreed from time to time with Ofwat) from the Initial Issue Date until the final maturity date, being the Business Day before the third anniversary of the Initial Issue Date and to meet the general corporate purposes of TWUL (the "**Capital Expenditure Facility**" and, together with the Working Capital Facility, the "**Initial Credit Facility**").

The Working Capital Facility and the Capital Expenditure Facility will be on-lent by the Issuer to TWUL pursuant to the Initial Issuer/TWUL Loan Agreement.

TWUL and the Issuer will make representations and warranties, covenants and undertakings to the Initial Credit Facility Providers on the terms set out in the CTA.

The Events of Default under the CTA will apply under the Initial Credit Facility (see the section "*Common Terms Agreement*" above).

The ability of the Initial Credit Facility Providers to accelerate any sums owing to it under the Initial Credit Facility upon or following the occurrence of an Event of Default thereunder is subject to the STID.

TWUL and/or the Issuer may enter into further Authorised Credit Facilities on terms similar to those in the Initial Credit Facility. Each additional Authorised Credit Provider will be given the benefit of the Security and will be required to accede to the STID and the CTA.

Existing Authorised Credit Facilities

As at the Initial Issue Date, TWUL will be party to the Existing Authorised Credit Finance Contracts pursuant to which the Existing Authorised Credit Provider has made available to TWUL the Existing Authorised Credit Facilities.

As at the Initial Issue Date, the Existing Authorised Credit Facilities comprise aggregate financial indebtedness of approximately £550,000,000 with maturity dates falling between 2008 and 2021. See the definition of Existing Authorised Credit Facilities for a breakdown of principal amounts and respective maturity dates. The proceeds of the Existing Authorised Credit Facilities have been applied towards TWUL's capital expenditure requirements.

The Existing Authorised Credit Facilities constitute Class A Debt in respect of which the Existing Authorised Credit Provider is the Class A DIG Representative.

The Events of Default under the CTA will apply under the Existing Authorised Credit Facilities (see the section "*Common Terms Agreement*" above).

The ability of the Existing Authorised Credit Provider to accelerate any sums owing to it under the Existing Authorised Credit Facilities upon or following the occurrence of an Event of Default thereunder is subject to the STID.

TWUL may enter into further Authorised Credit Facilities with the Existing Authorised Credit Provider on terms similar to those in the Existing Authorised Credit Facilities.

The Liquidity Facilities

DSR Liquidity Facilities

Each of the Issuer and TWUF will enter into a DSR Liquidity Facility Agreement on the Initial Issue Date. The Issuer may establish further DSR Liquidity Facilities in connection with the issue of further Bonds and other Class A Debt and Class B Debt issued or incurred.

Under the terms of each DSR Liquidity Facility Agreement, the Initial DSR Liquidity Facility Providers will provide a 364 day commitment in an aggregate amount specified in the DSR Liquidity Facility Agreement to permit drawings to be made by:

- (i) each of the Issuer and TWUF in circumstances where TWUL has or will have insufficient funds in the Debt Service Payment Account available on a Payment Date to pay amounts (other than principal amounts to be repaid in respect of Class A Debt or Class B Debt and principal amounts to be repaid or any termination payments under any Hedging Agreements) scheduled to be paid in respect of items (i) to (vi) inclusive of the Payment Priorities (a "**Liquidity Shortfall**"); and/or
- (ii) TWUF where TWUL or TWUF has or will have insufficient funds in the Operating Accounts available on an Unsecured TWUF Bond Payment Date, or otherwise fails on an Unsecured TWUF Bond Payment Date, to pay any amounts (other than principal amounts to be repaid in respect of Unsecured TWUF Bond Debt) scheduled to be paid on such Unsecured TWUF Bond Payment Date in respect of any Unsecured TWUF Bond Debt (an "**Unsecured TWUF Bond Shortfall**").

The proceeds of drawings made by the Issuer or TWUF under the DSR Liquidity Facilities will be on-lent by the Issuer or, as the case may be, TWUF to TWUL under the relevant Issuer/TWUL Loan Agreement or, as the case may be, the TWUF/TWUL Loan Agreements.

The Issuer will not be able to make a drawing in respect of a Liquidity Shortfall relating (in whole or in part) to Class B Debt unless the sum of the amount available under the DSR Liquidity Facilities and the amount standing to the credit of the Issuer's Class A Debt Service Reserve Account (immediately after such drawing) is not less than the Class A Required Balance. TWUF will not be able to make a drawing in respect of a Liquidity Shortfall relating (in whole or in part) to Class B Debt. Only TWUF will be able to make a drawing in respect of an Unsecured TWUF Bond Shortfall.

Unless otherwise agreed by the Issuer, TWUF and the Security Trustee, liquidity in respect of the Class A Debt and Unsecured TWUF Bond Debt will be applied in making payments in respect of Class A Debt or, as the case may be, Unsecured TWUF Bond Debt only and liquidity in respect of Class B Debt will be applied in making payments in respect of Class B Debt only.

O&M Reserve Facility

The O&M Reserve Facility Agreement will be entered into on the Initial Issue Date; under the terms of the O&M Reserve Facility Agreement, the Initial O&M Reserve Facility Providers will provide a 364 day liquidity facility in an aggregate amount equivalent to 10 per cent. of TWUL's Projected Operating Expenditure and Capital Maintenance Expenditure for the succeeding 12 months, drawings under which will be on-lent by the Issuer to TWUL to meet TWUL's operating and capital maintenance expenditure requirements to the extent that TWUL has insufficient funds available to it to meet these requirements. The Issuer may establish further O&M Reserve Facilities in connection with the issue of further Bonds and other Class A Debt and Class B Debt issued or incurred.

Each Liquidity Facility Provider must be a bank which as at the relevant Issue Date has the Minimum Short-Term Rating.

Each Liquidity Facility Provider may be replaced at any time **provided that** such Liquidity Facility Provider is replaced by a bank with the Minimum Short-Term Rating and all amounts outstanding to such Liquidity Facility Provider are repaid in full.

Each Liquidity Facility Agreement will provide that amounts repaid by the Issuer may be redrawn.

Each Liquidity Facility Agreement will provide that if (i) at any time the rating of the relevant Liquidity Facility Provider falls below the Minimum Short-Term Rating, or (ii) the relevant Liquidity Facility Provider does not agree to renew its commitment under such Liquidity Facility prior to the expiry of the relevant availability period, the Issuer will:

- (a) use all reasonable endeavours to replace the relevant Liquidity Facility Provider with a party having the Minimum Short-Term Rating; and
- (b) (if a replacement is not made within the relevant time period specified in the relevant Liquidity Facility Agreement) be entitled to require such Liquidity Facility Provider to pay into the Debt Service Reserve Account of each of the Issuer and TWUF (in the case of a DSR Liquidity Facilities) or the Issuer's O&M Reserve Account (in the case of an O&M Reserve Facility) the full amount of the relevant Liquidity Facility Provider's undrawn commitment (a "**Standby Drawing**").

A Standby Drawing will generally be repayable only if the relevant Liquidity Facility Provider is rated with the Minimum Short-Term Rating or confirmation is received from each of the Rating Agencies that either (i) the terms of a replacement Liquidity Facility, or (ii) the absence of any such facility, in each case, as applicable will not lead to a shadow ratings downgrade of the Wrapped Bonds or a credit ratings downgrade of the Unwrapped Bonds from the relevant Rating Agencies.

Interest will accrue on any drawing (including a Standby Drawing) made under the Liquidity Facility provided by a Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Liquidity Facility Agreements, the Issuer and, in the case of the DSR Liquidity Facilities, TWUF will also, in certain circumstances, be required to pay additional amounts if (i) a withholding or deduction for or on account of tax is imposed on payments made by it to the relevant Liquidity Facility Provider; or (ii) if the relevant Liquidity Facility Provider suffers an increase in the cost of providing the relevant Liquidity Facility. The Issuer and, in the case of the DSR Liquidity Facilities, TWUF will pay certain agency, arrangement and renewal fees as well as a commitment fee which will accrue on any undrawn portion of the commitments under the Liquidity Facilities.

Upon the enforcement of the Security pursuant to the STID, all indebtedness outstanding under any Liquidity Facility (other than Subordinated Liquidity Facility Amounts) will rank in priority to the Bonds.

Hedging

The Hedging Policy provides that the TWU Financing Group must enter into Hedging Agreements in accordance with the Hedging Policy and that the only members of the TWU Financing Group that may enter into Hedging Agreements are TWUL, TWUF and the Issuer.

Existing Hedging Agreements

As at the Initial Issue Date, TWUL will be party to the Existing Hedging Agreements. Four of the Existing Hedging Agreements are Currency Hedging Agreements relating to the JPY Bonds (two of which were previously between the Parent and the relevant Existing Hedging Counterparty but will be novated to TWUL on or before the Initial Issue Date). The remaining two Existing Hedging Agreements are Interest Rate Hedging Agreements relating to the Existing Finance Leases.

The Hedging Policy provides, *inter alia*, that:

1. 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).
2. 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.
3. 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.
4. 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.
5. The TWU Financing Group will hedge at least 85 per cent. of its total outstanding debt liabilities for the current period to the next Periodic Review and at least 75 per cent. in the next period to the subsequent Periodic Review (each as adjusted proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than 5 years) (on a rolling basis). 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).
6. Interest rate risk on floating rate liabilities will be hedged through a combination of cash balances and instruments such as interest rate swaps entered into by the Issuer.
7. 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.
8. The Issuer, TWUF and TWUL may only enter into Treasury Transactions with counterparties whose short-term, unsecured and unsubordinated debt obligations are assigned a rating by the Rating Agencies which is no less than the minimum required ratings applicable to each Rating Agency as specified in the Hedging Policy or where a parent guarantee is provided by an institution which meets the same criteria. Each Hedging Agreement must include a provision entitling the Issuer, TWUF or, as the case may be, TWUL to terminate if there is a downgrade of the Hedge Counterparty (or guarantor thereof) from such minimum required ratings or certain specified long-term ratings and the relevant Hedge Counterparty has failed to post collateral or take such other steps as may be stipulated in the relevant Hedging Agreement pursuant to the relevant provisions relating to counterparty credit risk in accordance with the current criteria of S&P and Moody's.

9. 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.

Termination

The Issuer, TWUF or, as the case may be, TWUL will be entitled to terminate a Hedging Agreement in certain circumstances (including a failure to pay by the Hedge Counterparty, certain insolvency events affecting the Hedge Counterparty and certain rating downgrade events affecting the Hedge Counterparty or any guarantor as the case may be where the relevant Hedge Counterparty has failed to post collateral or take such other steps as may be stipulated in the relevant Hedging Agreement pursuant to the relevant provisions relating to counterparty credit risk in accordance with the current criteria of S&P and Moody's).

The Hedge Counterparty will be entitled to terminate a Hedging Agreement only in certain limited circumstances being:

- (a) a failure by the Issuer, TWUF or, as the case may be, TWUL to make payment when due;
- (b) certain insolvency events affecting the Issuer, TWUF or, as the case may be, TWUL;
- (c) illegality affecting the Hedging Agreement;
- (d) certain tax events;
- (e) redemption in whole or in part of any Sub-Class of the Bonds hedged by such Treasury Transaction;
- (f) termination of a Standstill Period (except by virtue of remedy or waiver of the relevant Event of Default giving rise to the Standstill Period) or, if earlier, an Acceleration of any Sub-Class of the Bonds hedged by such Treasury Transaction pursuant to Condition 11 of the Bonds; and
- (g) (subject to the provisions described below) upon the exercise of an option (if applicable) to terminate a Hedging Agreement on the tenth anniversary of the effective date of the relevant hedging transaction or at five yearly intervals thereafter.

The Issuer, TWUF or TWUL may enter into interest rate 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 interest rate Treasury Transaction and thereafter no more frequently than at five-yearly intervals provided that, among other things:

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

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

Other Finance Documents

Account Bank Agreement

Pursuant to the Account Bank Agreement, the Account Bank will agree 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) will manage the Accounts

on behalf of the TWU Financing Group pursuant to the CTA (see the section "**Cash Management**" above).

Registered Office Agreement

Pursuant to a registered office agreement entered into between the Issuer and M&C Corporate Services Limited on 12 July 2007 (the "**Registered Office Agreement**"), M&C Corporate Services Limited and/or Maples and Calder will agree to provide certain corporate services to the Issuer.

Tax Deed of Covenant

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

Under the terms of the Tax Deed of Covenant, each Obligor will give certain representations and covenants as to its tax status and to the effect that, subject to the Obligors' membership of the TWUL VAT Group, it has not taken and, save in certain permitted circumstances, will not take any steps which could reasonably be expected to give rise to a liability to tax for an Obligor where that tax is primarily the liability of another person (a "**Secondary Tax Liability**") and, save in certain permitted circumstances, that it will not take any steps and will procure that no steps are taken which would cause any Obligor to become subject *inter alia* to any charge to corporation tax on chargeable gains under section 179 of the Taxation of Chargeable Gains Act 1992 or to stamp duty land tax as a result of the withdrawal of group relief under paragraph 3 or 9 of schedule 7 to the Finance Act 2003 (each a "**Degrouping Tax Liability**").

Kemble Water Holdings Limited, Kemble Water Limited and the Parent (the "**Covenantors**") will also represent and covenant 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 will undertake 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) will, under the Tax Deed of Covenant, incur certain obligations in relation to specified events including changes in ownership of the Obligors. For example, the Tax Deed of Covenant provides that in certain circumstances where it is anticipated that there will be a change of control for tax purposes of TWH and therefore of the Obligors (for example, as a result of the sale of shares in TWH or the Parent), the Parent can be required, as a condition of that sale, to deposit an amount in a trust account equal to the estimated tax liability (if any) arising or likely to arise in an Obligor as a result of the sale. The money deposited could then be used to pay the tax liability of the Obligor.

The TWUL VAT Group (of which TWUL is the representative member) is currently comprised of TWUL, Kemble Water Limited, TWH, Issuer and TWUF. With a view to mitigating the possibility of any Obligor becoming liable (on a joint and several basis or otherwise) for any VAT liability of another person (other than an Obligor), the Obligors and the Covenantors will represent and covenant that no other person shall become treated as a member of the TWUL VAT Group without the consent of the Security Trustee. Kemble Water Limited will also represent and covenant that it has not since the date of its incorporation made and will not make any supplies which would be subject to VAT. Kemble Water Holdings Limited will also indemnify TWUL or procure that TWUL is indemnified in respect of any Tax liability which TWUL may incur by virtue of any member of the Thames Water Group (other than an Obligor or Kemble Water Limited) having been a member of the TWUL VAT Group.

CHAPTER 8 THE BONDS

Terms and Conditions of the Bonds

*The following is the text of the terms and conditions which (subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Final Terms (as defined below) and, save for the italicised paragraphs) will be incorporated by reference 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 by reference is permitted by the rules of the relevant stock exchange and agreed by the Issuer). If such incorporation by reference is not so permitted and agreed, each Bond in bearer form and each Individual Bond Certificate representing Bonds in registered form will have endorsed thereon or attached thereto such text (as so completed, amended, varied or supplemented). Further information with respect to each Tranche (as defined below) of Bonds will be given in the relevant Final Terms which will provide for those aspects of these Conditions which are applicable to such Tranche (as defined below) of Bonds, including, in the case of Wrapped Bonds (as defined below), the form of Financial Guarantee (as defined below) and endorsement and, in the case of all Sub-Classes (as defined below), the terms of the relevant advance under the relevant Issuer/TWUL Loan Agreement. If a Financial Guarantor (as defined below) is appointed in relation to any Sub-Class of Wrapped Bonds (as specified in the relevant Final Terms) a supplement to this Prospectus will be produced providing such information about such Financial Guarantor as may be required by the rules of the UK Listing Authority, the London Stock Exchange or such other listing authority or stock exchange on which such Bonds are admitted to listing and/or trading. References in the Conditions to "**Bonds**" are, as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme.*

Thames Water Utilities Cayman Finance Limited (the "**Issuer**") has established a guaranteed bond programme (the "**Programme**") for the issuance of up to £10,000,000,000 guaranteed bonds (the "**Bonds**"). Bonds issued under the Programme on a particular Issue Date comprise a Series (a "**Series**"), and each Series comprises one or more Classes of Bonds (each a "**Class**"). Each Class may comprise one or more sub-classes (each a "**Sub-Class**") and each Sub-Class comprising one or more tranches (each a "**Tranche**").

Certain of the Bonds will be subject to a Financial Guarantee and will be designated as "**Class A Wrapped Bonds**" or "**Class B Wrapped Bonds**". The Bonds which are not subject to a Financial Guarantee will be designated as "**Class A Unwrapped Bonds**" (and, together with the Class A Wrapped Bonds, the "**Class A Bonds**") or "**Class B Unwrapped Bonds**" (and, together with the Class B Wrapped Bonds, the "**Class B Bonds**"). Each Sub-Class will be denominated in different currencies or will have different interest rates, maturity dates or other terms. Bonds of any Class may be zero coupon bonds ("**Zero Coupon Bonds**"), fixed rate bonds ("**Fixed Rate Bonds**"), floating rate bonds ("**Floating Rate Bonds**"), index-linked bonds ("**Indexed Bonds**"), dual currency bonds ("**Dual Currency Bonds**"), partly paid bonds ("**Partly Paid Bonds**") or instalment bonds ("**Instalment Bonds**") depending on the method of calculating interest payable in respect of such Bonds and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law.

The terms and conditions applicable to any particular Sub-Class of Bonds are these terms and conditions ("**Conditions**") as supplemented, amended and/or replaced by a set of final terms in relation to such Sub-Class (a "**Final Terms**"). In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

The Final Terms for the Bonds (or the relevant provisions thereof) supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of the Bonds. Reference to "**Final Terms**" is to the Final Terms (or the relevant provisions thereof) applicable to the Bonds.

The Bonds are subject to and have the benefit of a trust deed dated the Initial Issue Date (as defined below) (as amended, supplemented, restated and/or novated from time to time, the "**Bond Trust Deed**") between the Issuer, any Financial Guarantor (as defined below) acceding thereto and Deutsche Trustee Company Limited as trustee (the "**Bond Trustee**", which expression includes the trustee or trustees for the time being of the Bond Trust Deed).

The Class A Wrapped Bonds and the Class B Wrapped Bonds (each "**Wrapped Bonds**") alone will be unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest (as adjusted for indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and amounts (if any), in the case of Fixed Rate Bonds or Indexed Bonds (other than deferred interest), representing step-up fees at a rate specified in the relevant Final Terms in excess of the initial Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(i) (*Definitions*)), and, in the case of Floating Rate Bonds, representing step-up fees at a rate specified in the relevant Final Terms in excess of the initial Margin on the Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(i) (*Definitions*)) (in each case, the "**Subordinated Step-up Fee Amounts**"), all such amounts being the "**FG Excepted Amounts**") pursuant to a financial guarantee (each, a "**Financial Guarantee**") to be issued by financial guarantors (each a "**Financial Guarantor**") in conjunction with the issue of each Sub-Class of Bonds.

Neither of the Class A Unwrapped Bonds or the Class B Unwrapped Bonds (each "**Unwrapped Bonds**") will have the benefit of any such Financial Guarantee.

The Bonds have the benefit (to the extent applicable) of an agency agreement (as amended, supplemented and/or restated from time to time, the "**Agency Agreement**") dated the Initial Issue Date (to which the Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents (in the case of Bearer Bonds) or the Transfer Agents and the Registrar (in the case of Registered Bonds) are party). As used herein, each of "**Principal Paying Agent**", "**Paying Agents**", "**Agent Bank**", "**Transfer Agents**" and/or "**Registrar**" means, in relation to the Bonds, the persons specified in the Agency Agreement as the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity. The Bonds may also have the benefit (to the extent applicable) of a calculation agency agreement (in the form or substantially in the form of Schedule 1 to the Agency Agreement, the "**Calculation Agency Agreement**") between, *inter alios*, the Issuer and any calculation agent appointed by the Issuer as calculation agent (the "**Calculation Agent**").

On 30 August 2007 (the "**Initial Issue Date**"), the Issuer entered into a security agreement (the "**Security Agreement**") with Deutsche Trustee Company Limited as security trustee (the "**Security Trustee**"), pursuant to which the Issuer granted certain fixed and floating charge security (the "**Issuer Security**") to the Security Trustee for itself and on behalf of the Bond Trustee (for itself and on behalf of the Bondholders), the Bondholders, each TWUF Bond Trustee (for itself and on behalf of the relevant Secured TWUF Bondholders), the Secured TWUF Bondholders, each Financial Guarantor, the Issuer, TWUF, each Liquidity Facility Provider, any Liquidity Facility Arrangers, each Finance Lessor, the Hedge Counterparties, the Liquidity Facility Agents, the Initial Credit Facility Agent, the Initial Credit Facility Providers, each Authorised Credit Provider (as defined below), each Agent, the Account Bank, the Cash Manager (other than when the Cash Manager is TWUL), the Standstill Cash Manager and any Additional Secured Creditors (each as defined therein) (together with the Security Trustee, the "**Secured Creditors**"). On the Initial Issue Date, the Issuer entered into a security trust and intercreditor deed (the "**STID**") with, among others, the Security Trustee, other Secured Creditors and certain Secondary Market Guarantors and pursuant to which the Security Trustee holds the Security on trust for itself and the other Secured Creditors and the Secured Creditors and the Secondary Market Guarantors agree to certain intercreditor arrangements.

On or about the date of this Prospectus, the Issuer entered into a Dealership Agreement (the "**Dealership Agreement**") with the dealers named therein (the "**Dealers**") in respect of the Programme, pursuant to which any of the Dealers may enter into a subscription agreement in relation to each Sub-Class of Bonds issued by the Issuer, and pursuant to which the Dealers have agreed to subscribe for the relevant Sub-Class of Bonds. In any subscription agreement relating to a Sub-Class of Bonds, any of the Dealers may agree to procure subscribers to subscribe for the relevant Sub-Class of Bonds.

On the Initial Issue Date, the Issuer entered into a common terms agreement (the "**Common Terms Agreement**") with, among others, the Security Trustee, pursuant to which the Issuer makes certain representations, warranties and covenants and which sets out in Schedule 7 thereof the Events of Default (as defined therein) in relation to the Bonds.

The Issuer has entered or may enter into liquidity facility agreements (together, the "**Liquidity Facility Agreements**") with certain liquidity facility providers (together, the "**Liquidity Facility Providers**") pursuant to which the Liquidity Facility Providers agree to make certain facilities available to meet liquidity shortfalls (including debt service liquidity shortfalls and shortfalls in operating and maintenance expenditure of TWUL).

The Issuer has entered or may enter into certain revolving credit facilities (together, the "**Authorised Credit Facilities**") with certain lenders (the "**Authorised Credit Providers**"), pursuant to which the Authorised Credit Providers agree to make certain facilities available to the Issuer for the purpose of funding certain working capital, capital expenditure and other expenses of the TWU Financing Group.

TWUL and/or the Issuer and/or TWUF may enter into certain currency, index linked and interest rate hedging agreements (together, the "**Hedging Agreements**") with certain hedge counterparties (together the "**Hedge Counterparties**") in respect of certain Sub-Classes of Bonds and Authorised Credit Facilities, pursuant to which the Issuer, TWUF or TWUL, as the case may be, hedges certain of its currency, index linked and interest rate obligations.

The Bond Trust Deed, the Bonds (including the applicable Final Terms), the Secured TWUF Bond Trust Deeds, the Secured TWUF Bonds (including the applicable final terms), the Security Agreement, the STID, (the STID, the Security Agreement and any other documentation evidencing or creating security over any asset of an Obligor to a Secured Creditor under the Finance Documents being together the "**Security Documents**"), the Financial Guarantee Fee Letters, the Finance Lease Documents, the Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Initial Credit Facility Agreement, the Issuer/TWUL Loan Agreements, the TWUF/TWUL Loan Agreements, the TWUL/TWH Loan Agreement, the G&R Deeds, the Financial Guarantees, the CTA, the CP Agreement, the Existing Authorised Credit Finance Contracts, any other Authorised Credit Facilities, the master definitions agreement between, among others, the Issuer and the Security Trustee dated the Initial Issue Date (the "**Master Definitions Agreement**"), the account bank agreement between, among others, the account bank, the Issuer and the Security Trustee (the "**Account Bank Agreement**"), the Tax Deed of Covenant, any indemnification deed between, among others, a Financial Guarantor and the Dealers (an "**Indemnification Deed**") and any related security document (each, if not defined above, as defined below or in the Master Definitions Agreement) are, in relation to the Bonds, (and together with each other agreement or instrument between TWUL or the Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by TWUL or the Issuer (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum of such Additional Secured Creditor) together referred to as the "**Finance Documents**".

Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Certain statements in these Conditions are summaries of the detailed provisions appearing on the face of the Bonds (which expression shall include the body thereof), in the relevant Final Terms or in the Bond Trust Deed, the Security Agreement or the STID. Copies of, *inter alia*, the Finance Documents are available for inspection during normal business hours at the specified offices of the Principal Paying Agent (in the case of bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of registered Bonds), save that, if the Bond is an unlisted Bond of any Sub-Class, the applicable Final Terms will only be obtainable by a Bondholder holding one or more unlisted Bonds of that Sub-Class and such Bondholder must provide evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Bonds and identity.

The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Bond Trust Deed, the STID, the Security Agreement, the CTA and the relevant Final Terms and to have notice of those provisions of the Agency Agreement and the other Finance Documents applicable to them.

Any reference in these conditions to a matter being "**specified**" means as the same may be specified in the relevant Final Terms.

1. **Form, Denomination and Title**

(a) *Form and Denomination*

The Bonds are in bearer form ("**Bearer Bonds**") or in registered form ("**Registered Bonds**") as specified in the applicable Final Terms and, serially numbered in the Specified Denomination(s) provided that in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds). Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination and Registered Bonds may not be exchanged for Bearer Bonds and vice versa. References in these Conditions to "Bonds" include Bearer Bonds and Registered Bonds and all Sub-Classes, Classes, Tranches and Series.

So long as the Bonds are represented by a temporary Global Bond or permanent Global Bond and the relevant clearing system(s) so permit, 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) and integral multiples of the Tradeable Amount (as defined in the relevant Final Terms) in excess thereof provided in the relevant Final Terms.

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 "**Talontholders**").

The bearer of any Bearer Bond, Coupon, Receipt or Talon and the registered holder of any Registered Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the relevant Bond, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed on the Bond Certificate in respect thereof) and no person will be liable for so treating the holder.

Bonds which are represented by a Global Bond or Global Bond Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

(c) *Fungible Issues of Bonds comprising a Sub-Class*

A Sub-Class of Bonds may comprise a number of issues in addition to the initial Tranche of such Sub-Class, each of which will be issued on identical terms save for the first Interest Payment Date, the Issue Date and the Issue Price. Such further issues of the same Sub-Class will be consolidated and form a Series with the prior issues of that Sub-Class.

2. **Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds**

(a) *Exchange of Bonds*

Subject to Condition 2(e) (*Closed Periods*), Bearer Bonds may, if so specified in the relevant Final Terms, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined below) for any payment of interest or Interest Amount (as defined below), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it.

Registered Bonds may not be exchanged for Bearer Bonds.

(b) *Transfer of Registered Bonds*

A Registered Bond may be transferred upon the surrender of the relevant Individual Bond Certificate, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless (i) the principal amount of Registered Bonds proposed to be transferred; and (ii) the principal amount of the Registered Bonds proposed to be the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Specified Denominations (as specified in the relevant Final Terms). In the case of a transfer of part only of a holding of Registered Bonds represented by an Individual Bond Certificate, a new Individual Bond Certificate in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

(c) *Delivery of New Individual Bond Certificates*

Each new Individual Bond Certificate to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled

to the Individual Bond Certificate to such address as may be specified in such request or form of transfer. For these purposes, a form of transfer or request for exchange received by the Registrar after the Record Date (as defined below) in respect of any payment due in respect of Registered Bonds shall be deemed not to be effectively received by the Registrar until the business day (as defined below) following the due date for such payment.

(d) *Exchange at the Expense of Transferor Bondholder*

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(e) *Closed Periods*

No transfer of a Registered Bond may be registered, nor any exchange of a Bearer Bond for a Registered Bond may occur during the period of 15 days ending on the due date for any payment of principal, interest, Interest Amount (as defined below) or Redemption Amount (as defined below) on that Bond.

3. **Status of Bonds and Financial Guarantee**

(a) *Status of Class A Bonds*

This Condition 3(a) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

The Class A Bonds, Class A Coupons, Class A Talons and Class A Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*) and rank *pari passu* without any preference among themselves. However, the Class A Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(b) *Status of Class B Bonds*

This Condition 3(b) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class B Bonds.

The Class B Bonds, Class B Coupons, Class B Talons and Class B Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*), are subordinated to the Class A Bonds, Class A Coupons, Class A Receipts and Class A Talons (if any) and rank *pari passu* without any preference among themselves. However, the Class B Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(c) *Financial Guarantee Issued by Financial Guarantor*

This Condition 3(c) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

Each Sub-Class of each Class of Wrapped Bonds will have the benefit of a Financial Guarantee issued by a Financial Guarantor, issued pursuant to a guarantee and reimbursement deed between, amongst others, the Issuer and a Financial Guarantor dated on or before the relevant Issue Date (as defined below) of such Bonds (each a "**G&R Deed**"). Under the relevant Financial Guarantee, the relevant Financial Guarantor unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled interest and payment of principal (but excluding FG Excepted Amounts) on such Wrapped Bonds, all as more particularly described in the relevant Financial Guarantee.

The terms of the relevant Financial Guarantee provide that amounts of principal on any such Bonds which have become immediately due and payable (whether by virtue of acceleration, prepayment or otherwise) other than on the relevant Payment Date (as defined under the Financial Guarantee) will not be treated as Guaranteed Amounts (as defined in the Financial Guarantee) which are Due for Payment (as defined in the Financial Guarantee) under the Financial Guarantee unless the Financial Guarantor in its sole discretion elects so to do by notice in writing to the Bond Trustee. The Financial Guarantor may elect to accelerate payments due under the Financial Guarantee in full or in part. All payments made by the relevant Financial Guarantor under the relevant Financial Guarantee in respect of partial acceleration shall be applied (i) to pay the Interest (as defined in the relevant Financial Guarantee) accrued but unpaid on the Principal (as defined in the relevant Financial Guarantee) of such part of the accelerated payment; and (ii) to reduce the Principal (as defined in the relevant Financial Guarantee) (or, in the case of Wrapped Bonds repayable in instalments, each principal repayment instalment on a *pro rata* basis with a corresponding reduction of each amount of the Interest (as determined in the Financial Guarantee)) outstanding under the relevant Sub-Classes of Wrapped Bonds. If no such election is made, the Financial Guarantor will continue to be liable to make payments in respect of the Bonds pursuant to the relevant Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

To the extent that the early redemption price of any Bonds exceeds the aggregate of the Principal Amount Outstanding of and any accrued interest outstanding on any such Bonds to be redeemed (each as adjusted for indexation in accordance with Condition 7(b) (Application of the Index Ratio), if applicable), payment of such early redemption price will not be guaranteed by the Financial Guarantor under the relevant Financial Guarantee.

(d) *Status of Financial Guarantee*

This Condition 3(d) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

The relevant Financial Guarantee provided by the Financial Guarantor in respect of the Bonds will constitute a direct, unsecured obligation of the Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(e) *Security Trustee not responsible for monitoring compliance*

Subject to certain exceptions, when granting any consent or waiver or exercising any power, trust, authority or discretion relating to or contained in the STID, the other Finance Documents or any Ancillary Documents, the Security Trustee will act in accordance with its sole discretion (where granted such right) or as directed, requested or instructed by or subject to the agreement of the Majority Creditors or, in particular cases, other specified parties and in accordance with the provisions of the STID.

The Security Trustee shall not be responsible for monitoring compliance by TWUL with any of its obligations under the Finance Documents to which it is a party except by means of receipt from TWUL of certificates of compliance which TWUL has covenanted to deliver to the Security Trustee pursuant to the provisions of the CTA and which will state among other things, that no Default is outstanding. The Security Trustee shall be entitled to rely on certificates absolutely unless it is instructed otherwise by the Majority Creditors in which case it will be bound to act on such instructions in accordance with the STID. The Security Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Finance Documents. The Security Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any two Authorised Signatories of any Obligor or any other party to any Finance Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Security Trustee may require to be satisfied. The

Security Trustee is in no way bound to call for further evidence or be responsible for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Security Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

All Bondholders shall (on providing sufficient evidence of identity) be entitled to view a copy of the Periodic Information as and when available to the Security Trustee pursuant to the terms of the CTA and to view a copy of the unaudited interim accounts and audited annual accounts of TWUL within 90 days of 30 September and 180 days of 31 March of each year, respectively.

In addition, each Guarantor has covenanted to provide the Security Trustee with certain additional information (as set out in Schedule 5, Part 1 "*Information Covenants*" of the CTA). Such information may be published on a website designated by the relevant Guarantor and the Security Trustee.

In the event the relevant website cannot be accessed for technical reasons or is non-operational or is infected by an electronic virus or function software for a period of five consecutive days, all such information set out above which would otherwise be available will be delivered to the Security Trustee in paper form for onward delivery to the Bond Trustee and the Agents. Copies of such information will be available for inspection at the specified office of the Agents and the Bond Trustee.

4. **Security, Priority and Relationship with Secured Creditors**

(a) *Guarantee and Security*

Under the Security Agreement, Thames Water Utilities Holdings Limited ("**TWH**") guarantees the obligations of each other Obligor under the Finance Documents and TWUL, TWUF and the Issuer will guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee for itself and on behalf of the Secured Creditors (including, without limitation, the Bond Trustee for itself and on behalf of the Bondholders) and secures such obligations upon the whole of its property, undertaking, rights and assets, subject to certain specified exceptions and, in the case of TWUL, to the terms of the Instrument of Appointment (as defined below) and any requirements thereunder or the Act (as defined below). There is no intention to create further security for the benefit of the holders of Bonds issued after the Initial Issue Date. All Bonds issued by the Issuer under the Programme and any additional creditor of the Issuer acceding to the STID will share in the security (the "**Security**") constituted by the Security Documents.

In these Conditions:

the "**Act**" means the United Kingdom Water Industry Act 1991 (as amended); and "**Instrument of Appointment**" means the instrument of appointment dated 1989 as amended under which the Secretary of State for the Environment appointed TWUL as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

"**Obligors**" means TWUL, TWUF, TWH and the Issuer.

(b) *Relationship among Bondholders and with other Secured Creditors*

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts and authorities, duties and discretions of the Bond Trustee (except where expressly provided or otherwise referred to in Condition 16 (*Bond Trustee Protections*)).

The STID provides that the Security Trustee (except in relation to its Reserved Matters and Entrenched Rights and subject to certain exceptions) will act on instructions of the Majority Creditors (including the Bond Trustee as trustee for and representative of the holders of each

Sub-Class of Wrapped Bonds (following the occurrence of an FG Event of Default in respect of the Financial Guarantor of such Wrapped Bonds which is continuing) and the holders of Unwrapped Bonds) and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Bond Trustee as trustee for and representative of the Bondholders or any individual Bondholder) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

(c) *Enforceable Security*

In the event of the Security becoming enforceable as provided in the STID, the Security Trustee shall, if instructed by the Majority Creditors, enforce its rights with respect to the Security, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Bondholder, provided that the Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured to its satisfaction.

(d) *Application After Enforcement*

After enforcement of the Security, the Security Trustee shall (to the extent that such funds are available) use funds standing to the credit of the Accounts (other than the Excluded Accounts) to make payments in accordance with the Payment Priorities (as set out in the CTA).

(e) *Bond Trustee and Security Trustee not liable for security*

The Bond Trustee and the Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the relevant Obligor to the Security, whether such defect or failure was known to the Bond Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Security created under the Security Documents whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security. The Bond Trustee and the Security Trustee have no responsibility for the value of any such Security.

5. **Issuer Covenants**

So long as any of the Bonds remain Outstanding, the Issuer has agreed to comply with the covenants as set out in Schedule 4 of the CTA.

The Bond Trustee shall be entitled to rely absolutely on a certificate of any director of the Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

6. **Interest and other Calculations**

(a) *Interest on Fixed Rate Bonds and Indexed Bonds*

This Condition 6(a) is applicable only if the relevant Final Terms specifies the Bonds as Fixed Rate Bonds or Indexed Bonds.

Each Fixed Rate Bond and Indexed Bond bears interest on its Principal Amount Outstanding (or, if it is a Partly Paid Bond, the amount paid up) and, if it is an Indexed Bond, adjusted for indexation in accordance with Condition 7 (*Indexation*)) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Interest Rate(s). Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

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

If interest is required to be calculated for a period other than a Fixed Interest Period or if no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated (i) in the case of Bonds other than Indexed Bonds, by applying the Interest Rate to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(f) (*Rounding*) and (ii) in the case of Indexed Bonds, on an actual/actual basis in line with the method used by the Debt Management Office for the United Kingdom Index-Linked Gilt Edged Market.

(b) *Interest on Floating Rate Bonds*

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

(i) *Interest Payment Dates*

Each Floating Rate Bond bears interest on its Principal Amount Outstanding (or, if it is a Partly Paid Bond, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are expressly specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

(ii) *Interest Rate(s)*

The Interest Rate(s) payable from time to time in respect of the Floating Rate Bonds will be determined in the manner specified in the applicable Final Terms.

- (A) If "**Screen Rate Determination**" is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Bonds for each Interest Period will be determined by the Agent Bank (or the Calculation Agent, if applicable) on the following basis:
 - (1) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank (or the Calculation Agent, if applicable) will determine the Relevant Rate (as defined in Condition 6(i) (*Definitions*));
 - (2) in any other case, the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the Relevant Rates (as defined in Condition 6(i) (*Definitions*)) which appear on the Page

as of the Relevant Time (as defined in Condition 6(i) (*Definitions*)) on the relevant Interest Determination Date;

- (3) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank (or the Calculation Agent, if applicable) will:
 - (A) request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 6(i) (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre (as defined in Condition 6(i) (*Definitions*)) interbank market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean of such quotations; and
- (4) if fewer than two such quotations are provided as requested in Condition 6(c)(iii), the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable)) quoted by the Reference Banks at approximately 11.00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the first day of the relevant Interest Period (as defined in Condition 6(i) (*Definitions*)) for loans in the Relevant Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 6(i) (*Definitions*)),

and the Interest Rate for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined. However, if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to the Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Bonds in respect of a preceding Interest Period.

- (B) If "**ISDA Determination**" is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank (or the Calculation Agent, if applicable) under an interest rate swap transaction if the Agent Bank (or the Calculation Agent, if applicable) were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - (1) Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
 - (2) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(i) (*Definitions*)); and

- (3) the relevant Reset Date (as defined in the ISDA Definitions) is either (1) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period, (2) if the relevant Floating Rate Option is based on EURIBOR, the first day of that Interest Period or (3) in any other case, as specified in the relevant Final Terms.

(iii) *Calculations*

The amount of interest payable in respect of any Floating Rate Bond for each Interest Period shall be calculated by multiplying the product of the Interest Rate and the Specified Denomination of such Bond during that Interest Period by the Day Count Fraction (as defined in Condition 6(i)(Definitions)) and rounding the resultant figure to the nearest unit of the Relevant Currency (rounded in accordance with Condition 6(f) (Rounding)).

(c) *Interest on Dual Currency Bonds*

The rate or amount of interest payable in respect of Dual Currency Bonds (other than Dual Currency Bonds which are Zero Coupon Bonds) shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Bonds*

In the case of Partly Paid Bonds (other than Partly Paid Bonds which are Zero Coupon Bonds), interest will accrue as aforesaid on the paid-up nominal amount of such Bonds and otherwise as specified in the applicable Final Terms.

(e) *Minimum Interest Rate and/or Maximum Interest Rate*

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be.

(f) *Rounding*

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

- (i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up);
- (ii) all figures will be rounded to seven significant figures (with halves being rounded up); and
- (iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, "unit" means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(g) *Business Day Convention*

If any date referred to in these Conditions or the relevant Final Terms is specified to be subject to adjustment in accordance with a Business Day convention and (x) if there is no numerically corresponding day on the calendar month in which such date should occur or (y) such date would otherwise fall on a day which is not a Business Day (as defined in Condition 6(i) (Definitions)), then if the Business Day Convention specified in the relevant Final Terms is:

- (i) the "**Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day;
 - (ii) the "**Modified Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
 - (iii) the "**Preceding Business Day Convention**", such date shall be brought forward to the immediately preceding Business Day.
- (h) *Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank (or the Calculation Agent, if applicable) may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (an "**Instalment Amount**"), obtain any quote or make any determination or calculation, the Agent Bank (or the Calculation Agent, if applicable) will determine the Interest Rate and calculate the amount of interest payable (the "**Interest Amounts**") in respect of each Specified Denomination of Bonds for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Condition 7(b) (*Application of the Index Ratio*), calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents or in the case of Registered Bonds, the Registrar, and, in each case, the Bond Trustee, the Issuer, the Bondholders and the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) as soon as possible after its determination but in no event later than (i) (in case of notification to the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount; or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Sub-Class or Tranche of Bonds are for the time being listed or by which they have been admitted to listing and to the Bondholders in accordance with Condition 17 (*Notices*). If the Bonds become due and payable under Condition 11 (*Events of Default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Agent Bank (or the Calculation Agent, if applicable) or, as the case may be, the Bond Trustee pursuant to this Condition 6 or Condition 7 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

- (i) *Accrual of Interest*

Interest will cease to accrue on each Bond (or, in the case of the redemption of part only of a Bond, that part only of such Bond) on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate in the manner provided in this Condition 6 to the Relevant Date (as defined in Condition 6(i) (*Definitions*)).

(j) *Deferral of interest on Class B Bonds*

This Condition 6(j) is applicable only in relation to Bonds which are specified as being Class B Bonds.

In the case of interest on Class B Bonds only, if, on any Interest Payment Date prior to the taking of Enforcement Action after the termination of a Standstill Period, there are insufficient funds available to the Issuer (after taking into account any amounts available to be drawn under any DSR Liquidity Facility or from the Debt Service Reserve Accounts) to pay such accrued interest, the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 11 (*Cash Management*) of the CTA, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest (including any interest accrued thereon). Interest will accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class B Bonds.

(k) *Agent Bank, Calculation Agent and Reference Banks*

The Issuer will procure that there shall at all times be an Agent Bank (and a Calculation Agent, if applicable) and four Reference Banks selected by the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) with offices in the Relevant Financial Centre if provision is made for them in these Conditions applicable to this Bond and for so long as it is Outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the Agent Bank (or the Calculation Agent, if applicable) is unable or unwilling to act as such or if the Agent Bank (or the Calculation Agent, if applicable) fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint (with the prior written consent of the Bond Trustee) a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(l) *Determination or Calculation by Bond Trustee*

If the Agent Bank (or the Calculation Agent, if applicable) does not at any time for any reason determine any Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or any other amount to be determined or calculated by it, the Bond Trustee shall (without liability for so doing) determine such Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or other amount as aforesaid at such rate or in such amount as in its absolute discretion (having regard as it shall think fit to the procedures described above, but subject to the terms of the Bond Trust Deed and always subject to any Minimum Interest Rate or Maximum Interest Rate specified in the applicable Final Terms) it shall deem fair and reasonable in all the circumstances or, subject as aforesaid, apply the foregoing provisions of this Condition, with any consequential amendments, to the extent that, in its sole opinion, it can do so and in all other respects it shall do so in such manner as it shall, in its absolute discretion, deem fair and reasonable in the circumstances, and each such determination or calculation shall be deemed to have been made by the Agent Bank (or the Calculation Agent, if applicable).

(m) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of Condition 6 (*Interest and Other Calculations*) whether by the Principal Paying Agent, the Agent Bank (or the Calculation Agent, if applicable) or, if applicable, any calculation agent, shall (in the

absence of wilful default, negligence, bad faith or manifest error) be binding on the Issuer, TWUL, TWUF, TWH, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, TWUL, TWUF, TWH, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, any calculation agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(n) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

"Broken Amount" means the amount specified as such in the relevant Final Terms.

"Business Day" means:

- (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; 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.

"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) **"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 hereon or, if none is so specified, the Interest Payment Date;

- (ii) if "**Actual/365**" or "**Actual/Actual**" 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
- (v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (1) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month; or (2) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the last day of such period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month);

"**euro**" means the lawful currency of the Participating Member States;

"**Fixed Coupon Amount**" means the amount specified as such in the relevant Final Terms.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Final Terms;

"**Interest Determination Date**" means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the Relevant Currency is sterling the first day of such Interest Period) (as adjusted in accordance with any Business Day Convention (as defined below) specified in the relevant Final Terms);

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Rate**" means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Final Terms;

"**ISDA Definitions**" means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Final Terms, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" means the date specified as such in the relevant Final Terms;

"**Margin**" means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms;

"**Maturity Date**" means the date specified in the relevant Final Terms as the final date on which the principal amount of the Bond is due and payable;

"**Maximum Interest Rate**" means the rate specified as such in the relevant Final Terms;

"**Minimum Interest Rate**" means the rate specified as such in the relevant Final Terms;

"**Page**" means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service ("**Reuters**")) as may be specified in the relevant Final Terms, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty establishing the European Communities (as amended), and "**Participating Member States**" means all of them;

"**Principal Amount Outstanding**" means, in relation to a Bond, Sub-Class or Class, the original face value thereof (in relation to any Indexed Bonds, as adjusted in accordance with the Conditions) less any repayment of principal made to the Holder(s) thereof in respect of such Bond, Sub-Class or Class;

"**Redemption Amount**" means, the amount provided under Condition 8(b) (*Optional Redemption*), unless otherwise specified in the relevant Final Terms;

"**Reference Banks**" means the institutions specified as such or, if none, four major banks selected by the Agent Bank (or the Calculation Agent, if applicable) in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable), on behalf of the Issuer, in its sole and absolute discretion;

"**Relevant Currency**" means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated;

"**Relevant Date**" means the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding (adjusted in the case of Indexed Bonds in accordance with Condition 7(b) (*Application of Index Ratio*)) has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Bondholders in accordance with Condition 17 (*Notices*);

"**Relevant Financial Centre**" means, with respect to any Bond, the financial centre specified as such in the relevant Final Terms or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank (or the Calculation Agent, if applicable);

"**Relevant Rate**" means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Final Terms);

"**Relevant Time**" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre;

"Representative Amount" means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Final Terms as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"Specified Denomination" means the denomination specified in the relevant Final Terms.

"Specified Duration" means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant Final Terms or, if none is specified, a period of time equal to the relative Interest Period;

"Specified Interest Payment Date" means the date(s) specified as such in the relevant Final Terms.

"Specified Period" means the period(s) specified as such in the relevant Final Terms.

"TARGET Settlement Day" means any day on which the TARGET system is open; and

"TARGET system" means the Trans-European Automated Real-Time Gross Settlement Express Transfer system.

7. **Indexation**

This Condition 7 is applicable only if the relevant Final Terms specifies the Bonds as Indexed Bonds.

(a) *Definitions*

"affiliate" means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, "control" means control as defined in the Companies Act;

"Base Index Figure" means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Final Terms;

"Index" or **"Index Figure"** means, subject as provided in Condition 7(c)(i) (*Change in base*), the UK Retail Price Index (RPI) (for all items) published by the Central Statistical Office (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the Index Figure applicable to a particular month shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication. If the Index is replaced, the Issuer will describe the replacement Index in a supplementary Prospectus;

"Index Ratio" applicable to any month means the Index Figure applicable to such month divided by the Base Index Figure;

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

"Limited Indexation Factor" means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month

twelve months prior thereto, **provided that** (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

"Limited Indexation Month" means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

"Limited Indexed Bonds" means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies; and

"Maximum Indexation Factor" means the indexation factor specified as such in the relevant Final Terms;

"Minimum Indexation Factor" means the indexation factor specified as such in the relevant Final Terms;

"Reference Gilt" means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Bond Trustee (an **"Indexation Adviser"**).

(b) *Application of the Index Ratio*

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Indexed Bonds applicable to the month in which such payment falls to be made and rounded in accordance with Condition 6(f) (*Rounding*).

(c) *Changes in Circumstances Affecting the Index*

(i) **Change in base:** If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of **"Index"** and **"Index Figure"** in Condition 7(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure (being at the Initial Issue Date 178.2) and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) **Delay in publication of Index:** If the Index Figure which is normally published in the seventh month and which relates to the eighth month (the **"relevant month"**) before the month in which a payment is due to be made is not published on or before the fourteenth business day before the date on which such payment is due (the **"date for payment"**), the Index Figure applicable to the month in which the date for payment falls shall be (1) such substitute index figure (if any) as the Bond Trustee considers to have been published by the Bank of England for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Bond Trustee); or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(i) (*Change in base*)) before the date for payment.

(d) *Application of Changes*

Where the provisions of Condition 7(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which

the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Bond is still Outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and
 - (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.
- (e) *Cessation of or Fundamental Changes to the Index*
- (i) If (1) the Bond Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
 - (ii) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer and the Bond Trustee or, failing agreement on and the making of such appointment within 20 business days following the expiry of the day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the "**Expert**"), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.
 - (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Financial Guarantor(s), the other Secured Creditors, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

8. **Redemption, Purchase and Cancellation**

(a) *Partial and Final Redemption*

Unless previously redeemed, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Final Terms as having no fixed maturity date, each Bond will be redeemed at its Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)), on the date or dates (or, in the case of Floating Rate Bonds, on the Interest Payment Date(s)) specified in the relevant Final Terms plus accrued but unpaid interest (other than in the case of Zero Coupon Bonds) and, in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*).

In the case of principal on Class B Bonds only, if on any date, prior to the taking of Enforcement Action after the termination of a Standstill Period, on which such Bond is to be redeemed (in whole or in part) there are insufficient funds available to the Issuer to pay such principal, the Issuer's liability to pay such principal will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 11 (*Cash Management*) of the CTA, sufficient funds to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Class A Debt has been paid in full and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred principal (including any accrued interest thereon). Interest will accrue on such deferred principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

(b) *Optional Redemption*

Subject as provided below, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders, the Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Bonds in whole or in part (but on a *pro rata* basis only) on any Interest Payment Date at their Redemption Amount, **provided that** Floating Rate Bonds may not be redeemed before the date specified in the relevant Final Terms, as follows:

- (i) In respect of Fixed Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be an amount equal to the higher of (i) their Principal Amount Outstanding; and (ii) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such UK government stock (or such other stock as specified in the relevant Final Terms for Bonds denominated in currencies other than Sterling) as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(i), "**Gross Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "**Formulae for Calculating Gilt Prices from Yields**" published 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002 (and as further updated, supplemented, amended or replaced from time to time) page 5 or any replacement therefor; "**Reference Date**" means the date which is two Business Days prior to the

despatch of the notice of redemption under this Condition 8(b)(i); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms.

- (ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Final Terms) plus any accrued but unpaid interest on the Principal Amount Outstanding.
- (iii) In respect of Indexed Bonds, the Redemption Amount will (unless otherwise specified in the relevant Final Terms) be the higher of (i) the Principal Amount Outstanding; and (ii) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market, (selected by the Issuer and approved by the Bond Trustee), determine to be appropriate, plus accrued but unpaid interest (as adjusted in accordance with Condition 7(b) (*Applications of the Index Ratio*)) on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(iii), "**Gross Real Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "**Formulae for Calculating Gilt Prices from Yields**" published 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002, page 4 or any replacement thereof, "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under Condition 8(b)(iii); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms.

In any such case, prior to giving any such notice, the Issuer must certify (as further specified in the Finance Documents) to the Bond Trustee that it will have the funds, not subject to any interest (other than under the Security) of any other person, required to redeem the Bonds as aforesaid.

(c) *Redemption for Index Event, Taxation or Other Reasons*

Redemption for Index Events: Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the holders of the Indexed Bonds in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Indexed Bonds of all Sub-Classes on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(b) (*Application of Index Ratio*)) plus accrued but unpaid interest. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Indexed Bonds are also redeemed at the same time and the Issuer has discharged all amounts due and payable to any Financial Guarantor that has issued a Financial Guarantee in respect of such Class or Sub-Class of Indexed Bonds. Before giving any such notice, the Issuer shall provide to the Bond Trustee, the Security Trustee, the Majority Creditors and the relevant Financial Guarantor(s) a certificate signed by an Authorised Signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption and payment to the relevant Financial Guarantor(s).

"**Index Event**" means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) (*Delay in publication of Index*) and the Bond Trustee has been notified by the Principal

Paying Agent that publication of the Index has ceased; or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Issuer and such circumstances are continuing.

Redemption for Taxation Reasons: In addition, if at any time the Issuer satisfies the Bond Trustee that the Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or the Cayman Islands or any political subdivision thereof, or any other authority thereof, then the Issuer may, in order to avoid the relevant deductions or withholding, use its reasonable endeavours to arrange the substitution of a company incorporated under another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds and as lender under the Issuer/TWUL Loan Agreements and as obligor under the Finance Documents upon satisfying the conditions for substitution of the Issuer as set out in the STID (and referred to in Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*)). If the Issuer is unable to arrange a substitution as described above having used reasonable endeavours to do so and, as a result, the relevant deduction or withholding is continuing then the Issuer may (but will not be obliged to), upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Indexed Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)). Before giving any such notice of redemption, the Issuer shall provide to the Bond Trustee, the Security Trustee and the Majority Creditors and the relevant Financial Guarantors a certificate signed by an Authorised Signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds and any amounts under the Security Agreement to be paid in priority to, or *pari passu* with, the Bonds under the Payment Priorities.

(d) *Redemption on Prepayment of Issuer/TWUL Loan Agreements*

If TWUL gives notice to the Issuer under an Issuer/TWUL Loan Agreement that it intends to prepay all or part of any advance made under such Issuer/TWUL Loan Agreement and such advance was funded by the Issuer from the proceeds of the issue of a Sub-Class of Bonds, the Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors, the relevant Financial Guarantors and the Bondholders in accordance with Condition 17 (*Notices*), (where such advance is being prepaid in whole) redeem all of the Bonds of that Sub-Class or (where part only of such advance is being prepaid) the proportion of the relevant Sub-Class of Bonds which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Bonds will be redeemed at their Redemption Amount determined in accordance with Condition 8(b) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Indexed Bonds, for the purposes of this Condition 8(d), "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(d), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

(e) *Early redemption of Zero Coupon Bonds*

Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Bond at any time before the Maturity Date shall be an amount equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition (e) or, if none is so specified, a Day Count Fraction of 30/360.

In these Conditions, "Accrual Yield" and "Reference Price" and "Zero Coupon Bond" have the meanings given to them in the relevant Final Terms.

(f) *Purchase of Bonds*

The Issuer may, provided that no Event of Default has occurred and is continuing, purchase Bonds (provided that all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

If not all the Bonds which are in registered form are to be purchased, upon surrender of the existing Individual Bond Certificate, the Registrar shall forthwith upon the written request of the Bondholder concerned issue a new Individual Bond Certificate in respect of the Bonds which are not to be purchased and despatch such Individual Bond Certificate to the Bondholder (at the risk of the Bondholder and to such address as the Bondholder may specify in such request).

While the Bonds are represented by a Global Bond or Global Bond Certificate (as defined below), the relevant Global Bond or Global Bond Certificate will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.

(g) *Redemption by Instalments*

Unless previously redeemed, purchased and cancelled as provided in this Condition 8, each Bond which provides for Instalment Dates (as specified in the relevant Final Terms) and Instalment Amounts (as specified in the relevant Final Terms) will be partially redeemed on each Instalment Date at the Instalment Amount.

(h) *Cancellation*

In respect of all Bonds purchased by or on behalf of the Issuer, the Bearer Bonds or the Registered Bonds shall be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

(i) *Instalments*

Instalment Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Redemption Amount will be determined pursuant to Condition 8(b) (*Optional Redemption*) above.

(j) *Partly Paid Bonds*

Partly Paid Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 8(j) and the applicable Final Terms.

9. **Payments**

(a) *Bearer Bonds*

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

(b) *Registered Bonds*

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

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) above and annotation of such payment on the Register and the relevant Bond Certificate.

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

A record of each payment so made will be endorsed on the schedule to the Global Bond or the Global Bond Certificate by or on behalf of the Principal Paying Agent or the Registrar, as the

case may be, which endorsement shall be *prima facie* evidence that such payment has been made.

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

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

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

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

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of this Condition 9. No commission or expenses shall be charged to the Bondholders, Couponholders or Receiptholders (if any) in respect of such payments.

The holder of a Global Bond or Global Bond Certificate shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond or Global Bond Certificate (as the case may be) and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond or Global Bond Certificate in respect of each amount paid.

(e) *Appointment of the Agents*

The Paying Agents, the Agent Bank, the Transfer Agents and the Registrar (the "**Agents**") appointed by the Issuer (and their respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Final Terms and will be appointed pursuant to a Calculation Agency Agreement. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, **provided that** the Issuer will at all times maintain (i) a Principal Paying Agent (in the case of Bearer Bonds); (ii) a Registrar (in the case of Registered Bonds); (iii) an Agent Bank or Calculation Agent (as specified in the relevant Final Terms) (in the case of Floating Rate Bonds or Indexed Bonds); (iv) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive; and (v) if and for so long as the Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent, Transfer Agent or Registrar in any particular place, a Paying Agent, Transfer Agent and/or Registrar, as applicable, having its specified office in the place required by such listing authority, stock exchange and/or quotation system, which, while any Bonds are admitted to the Official List of the UK Listing Authority and/or admitted to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market shall, in the case of the Paying Agent only, be in London. Notice of any such variation, termination or appointment will be given in accordance with Condition 17 (*Notices*).

(f) *Unmatured Coupons and Receipts and Unexchanged Talons*

- (i) Subject to the provisions of the relevant Final Terms, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unmaturing Coupons attached), unmaturing Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.
- (ii) Upon the date for redemption of any Bond, any unmaturing Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iv) Where any Bond, which is a Bearer Bond and is a Fixed Rate Bond, is presented for redemption without all unmaturing Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmaturing Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) *Non-Business Days*

Subject as provided in the relevant Final Terms, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in London and in the relevant place of presentation and in the cities referred to in the definition of Business Days and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

(h) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

10. **Taxation**

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or, in respect of Wrapped Bonds, the Financial Guarantors) without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer, the Guarantors, any Paying Agent or the Registrar or, where applicable, the Bond Trustee, the Security Trustee or the Financial Guarantor is required by

applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, the Guarantors, such Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor will be obliged to make any additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

If the Issuer is obliged to make any such deduction or withholding, the amount so deducted or withheld is not guaranteed by the Financial Guarantor.

11. **Events of Default**

The Events of Default (as defined in the Master Definitions Agreement) relating to the Bonds are set out in Schedule 6 of the CTA.

Following the notification of an Event of Default in respect of the Issuer, the STID provides for a Standstill Period (as defined in the Master Definitions Agreement) to commence and for restrictions to apply to all Secured Creditors of TWUL. The CTA also contains various Trigger Events that will, if they occur, (among other things) permit the Majority Creditors to commission an Independent Review, require TWUL to discuss its plans for appropriate remedial action and prevent the TWU Financing Group from making further Restricted Payments until the relevant Trigger Events have been remedied.

(a) *Events of Default*

If any Event of Default occurs and is continuing in relation to the Issuer, subject always to the terms of the STID, the Bond Trustee may at any time (in accordance with the provisions of the Bond Trust Deed and the STID), having certified in writing that, in its opinion, the occurrence of such event is materially prejudicial to the interests of the Bondholders and shall upon the Bond Trustee being so directed or requested (i) by an Extraordinary Resolution (as defined in the Bond Trust Deed) of holders of the relevant Sub-Classes of Class A Bonds or, if there are no Class A Bonds outstanding, the Class B Bonds or (ii) in writing by holders of at least one quarter in outstanding nominal amount of the relevant Sub-Class of Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds and subject, in each case, to being indemnified and/or secured to its satisfaction, give notice to the Issuer and the Security Trustee that the Bonds of the relevant Sub-Class are, and they shall immediately become, due and repayable, at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(a), the "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 11(a)) or as specified in the applicable Final Terms.

(b) *Confirmation of no Event of Default*

The Issuer, pursuant to the terms of the CTA, shall provide written confirmation to the Bond Trustee, on an annual basis, that no Event of Default has occurred in relation to the Issuer.

(c) *Enforcement of Security*

If the Bond Trustee gives written notice to the Issuer and the Security Trustee that an Event of Default has occurred under the Bonds of any Sub-Class, a Standstill Period shall commence. The Security Trustee may only enforce the Security acting in accordance with the STID and,

subject to certain limitations on enforcement during a Standstill Period, on the instructions of the Majority Creditors.

(d) *Automatic Acceleration*

In the event of the acceleration of the Secured Liabilities (other than a Permitted Share Pledge Acceleration, a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event (as defined in the Master Definitions Agreement) as set out in the STID), the Bonds of each Series shall automatically become due and repayable at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(d), "**Reference Date**" means the date two Business Days prior to the date of such acceleration) or as specified in the applicable Final Terms plus, in each case, accrued and unpaid interest thereon.

12. **Enforcement Against Issuer**

No Bondholder is entitled to take any action against the Issuer or, in the case of the holders of Wrapped Bonds, against the Financial Guarantor or against any assets of the Issuer or any Financial Guarantor to enforce its rights in respect of the Bonds or to enforce any of the Security or to enforce any Financial Guarantee unless the Bond Trustee or the Security Trustee (as applicable), having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Security Trustee will act (subject to Condition 11(c) (*Enforcement of Security*)) on the instructions of the Majority Creditors pursuant to the STID, and neither the Bond Trustee nor the Security Trustee shall be bound to take any such action unless it is indemnified and/or secured to its satisfaction against all fees, costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing.

Neither the Bond Trustee nor the Bondholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, re-organisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Security Agreement and subject to the STID) or other proceeding under any similar law for so long as any Bonds are Outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

13. **Prescription**

Claims against the Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date) in respect thereof.

14. **Replacement of Bonds, Coupons, Receipts and Talons**

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and requirements of the London Stock Exchange (in the case of listed Bonds) (and each other listing authority, stock exchange and or quotation system upon which the relevant Bonds have then been admitted to listing, trading and/or quotation), at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. **Meetings of Bondholders, Modification, Waiver and Substitution**

(a) *Decisions of Majority Creditors*

The STID contains provisions dealing with the manner in which matters affecting the interests of the Secured Creditors (including the Bond Trustee and the Bondholders) will be dealt with. Bondholders will (subject to various Reserved Matters and Entrenched Rights) be bound by the decisions of the Majority Creditors (and additionally in a Default Situation (as defined in the Master Definitions Agreement) decisions made pursuant to the Emergency Instruction Procedure (as set out in Clause 9.13 (*Emergency Instruction Procedure*) of the STID)).

In the circumstances which do not relate to Entrenched Rights or Reserved Matters of the Bondholders (as set out in the STID), the Bond Trustee shall be entitled to vote as the DIG Representative of holders of each Sub-Class of Wrapped Bonds (following the occurrence of an FG Event of Default in respect of the Financial Guarantor of those Wrapped Bonds which is continuing) and of each Sub-Class of Unwrapped Bonds (other than Class A FG Covered Bonds (unless a Default Situation is subsisting)) on intercreditor issues ("**Intercreditor Issues**") but shall not be entitled to convene a meeting of any one or more Sub-Class of Bondholders to consider the relevant matter unless a Default Situation is subsisting. If a Default Situation has occurred and is subsisting, the Bond Trustee may vote on Intercreditor Issues in its absolute discretion or shall vote in accordance with a direction by those holders of such outstanding Class A Bonds (including Class A FG Covered Bonds) or, if there are no Class A Bonds outstanding, Class B Bonds (i) by means of an Extraordinary Resolution of the relevant Sub-Class of Bonds; or (ii) (in respect of a DIG Proposal to terminate a Standstill) as requested in writing by the holders of at least one quarter of the Principal Amount Outstanding of the relevant Sub-Class of Class A Bonds (including Class A FG Covered Bonds) then outstanding, or if there are no Class A Bonds outstanding, Class B Bonds. In any case, the Bond Trustee shall not be obliged to vote unless it has been indemnified and/or secured to its satisfaction.

Whilst a Default Situation is subsisting, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings. To cater for such circumstances, the STID provides for an emergency instruction procedure. The Security Trustee will be required to act upon instructions contained in an emergency notice (an "**Emergency Instruction Notice**"). An Emergency Instruction Notice must be signed by DIG Representatives (*provided that*, any Secondary Market Guarantor in respect of Class A FG Covered Bonds shall constitute the DIG Representatives for the Emergency Instruction Procedure despite a Default Situation subsisting) (the "**EIN Signatories**") representing $66\frac{2}{3}$ 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 to consider any matter affecting their interests, including the modification of the Bonds, the Receipts, the Coupons or any of the provisions of the Bond Trust Deed, (in the case of Class A Wrapped Bonds and Class B Wrapped Bonds) the Financial Guarantees and any other Finance Document to which the Bond Trustee is a party (subject to the terms of the STID). Any modification may (except in relation to any Entrenched Right or Reserved Matter of the Bond Trustee (as set out in the STID) subject to the terms of the STID including, in the case of any of the Class A Wrapped Bonds or Class B Wrapped Bonds, to Entrenched Rights or Reserved Matters of any Financial Guarantor (as set out in the STID) and subject to the provisions concerning ratification and/or meetings of particular combinations of Sub-Classes of Bonds as set out in Condition 16(b) (*Exercise of rights by Bond Trustee*) and the Bond Trust Deed), be

made if sanctioned by a resolution passed at a meeting of such Bondholders duly convened and held in accordance with the Bond Trust Deed by a majority of not less than three-quarters of the votes cast (an "**Extraordinary Resolution**") at such meeting. Such a meeting may be convened by the Bond Trustee or the Issuer, and shall be convened by the Issuer upon the request in writing of the relevant Bondholders holding not less than one-tenth in nominal amount of the relevant Bonds for the time being Outstanding.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. in nominal amount of the relevant Bonds for the time being Outstanding or, at any adjourned meeting, one or more persons being or representing Bondholders, whatever the nominal amount of the relevant Bonds held or represented, provided however, that certain matters as set out in paragraph 5 of the Fourth Schedule to the Bond Trust Deed (the "**Basic Terms Modifications**") in respect of the holders of any particular Sub-Class of Bonds may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class of Bonds at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in nominal amount of the Outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Bond Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(c) *Modification, consent and waiver*

As more fully set out in the Bond Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Sub-Class, concur with the Issuer or any other relevant parties in making (i) any modification of these Conditions, the Bond Trust Deed, any Financial Guarantee or any Finance Document which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of law; and (ii) (except as mentioned in the Bond Trust Deed and subject to the terms of the STID) any other modification and granting any consent under or waiver or authorisation of any breach or proposed breach of these Conditions, the Bond Trust Deed, such Financial Guarantee or any such Finance Document or other document which is, in the opinion of the Bond Trustee, not materially prejudicial to the interests of the Bondholders of that Sub-Class. Any such modification, consent, waiver or authorisation shall be binding on the Bondholders of that Sub-Class, and the holders of all relevant Receipts and Coupons and, if the Bond Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders of that Sub-Class as soon as practicable thereafter.

The Bond Trustee shall be entitled to assume that any such modification, consent, waiver or authorisation is not materially prejudicial to the Bondholders if the Rating Agencies confirm that there will not be any adverse effect thereof on the original issue ratings of the Bonds.

(d) *Substitution of the Issuer*

As more fully set forth in the STID (and subject to the conditions and qualifications therein), the Bond Trustee may also agree with the Issuer, without reference to the Bondholders, to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Bond Trust Deed and the Bonds of all Series and subject to the Wrapped Bonds continuing to be subject to a Financial Guarantee of the relevant Financial Guarantor.

16. **Bond Trustee Protections**

(a) *Trustee considerations*

Subject to the terms of the STID and Condition 16(b) (*Exercise of rights by Bond Trustee*), in connection with the exercise, under these Conditions, the Bond Trust Deed, any Financial Guarantee or any Finance Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Bond Trustee shall have regard to the interests of the holders of the Bonds provided that, if the Bond Trustee considers, in its sole opinion, that there is a conflict of interest between the interests of the holders of the Class A Bonds and the interests of the holders of the Class B Bonds, the Bond Trustee shall give priority to the interests of the holders of the Class A Bonds whose interests shall prevail. Where, in the sole opinion of the Bond Trustee, there is a conflict between holders of two or more Sub-Classes of Bonds of the same Class, it shall consider the interests of the holders of the Sub-Class of Bonds with the shortest dated maturity and, in either case, will not have regard to the consequences of such exercise for the holders of other Sub-Classes of Bonds or for individual Bondholders, resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Bond Trustee shall not be entitled to require from the Issuer or any Financial Guarantor, nor shall any Bondholders be entitled to claim from the Issuer, any Financial Guarantor or the Bond Trustee, any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Bondholders of any such exercise.

(b) *Exercise of rights by Bond Trustee*

Except as otherwise provided in these Conditions and the Bond Trust Deed, when exercising any rights, powers, trusts, authorities and discretions relating to or contained in these Conditions or the Bond Trust Deed (other than in determining or in respect of any Entrenched Right or Reserved Matter relating to the Bonds or any other Basic Terms Modification), which affects or relates to any Class A Wrapped Bonds and/or Class B Wrapped Bonds, the Bond Trustee shall only act on the instructions of the relevant Financial Guarantor(s) (provided no FG Event of Default has occurred and is continuing) in accordance with the provisions of the Bond Trust Deed and the Bond Trustee shall not be required to have regard to the interests of the Bondholders in relation to the exercise of such rights, powers, trusts, authorities and discretions and shall have no liability to any Bondholders as a consequence of so acting. As a consequence of being required to act only on the instructions of the relevant Financial Guarantor(s) in the circumstances referred to in the previous sentence, the Bond Trustee may not, notwithstanding the provisions of these Conditions, be entitled to act on behalf of the holders of any Sub-Classes of Bonds. Subject as provided in these Conditions and the Bond Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Bond Trust Deed, the Conditions or any Financial Guarantee in accordance with the directions of the relevant Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has (a) (in respect of the matters set out in Condition 11 (*Events of Default*) and Condition 15(a) (*Decisions of the Majority Creditors*) only) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the relevant Sub-Classes of Bonds Outstanding; or (b) been so directed by an Extraordinary Resolution; and (ii) been indemnified and/or furnished with security to its satisfaction.

(c) *Decisions under STID binding on all Bondholders*

Subject to the provisions of the STID and the Entrenched Rights and Reserved Matters of the Bond Trustee and the Bondholders, decisions of the Majority Creditors and (in a Default Situation) decisions made pursuant to the Emergency Instructions Procedures will bind the Bond Trustee and the Bondholders in all circumstances.

17. **Notices**

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to

Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered Bonds as specified above) shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds, notices in respect of those Bonds may be given by delivery of the relevant notice to Euroclear as operator of the Euroclear System or Clearstream, Luxembourg or any other relevant clearing system as specified in the relevant Final Terms for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders on the day of delivery to such clearing systems.

18. **Indemnification Of The Bond Trustee And Security Trustee**

(a) *Indemnification of the Bond Trustee*

The Bond Trust Deed contains provisions for indemnification of the Bond Trustee, and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings against the Issuer, any Financial Guarantor and or any other person unless indemnified and/or secured to its satisfaction. The Bond Trustee or any of its affiliates (as defined in Condition (*Indexation*)) are entitled to enter into business transactions with the Issuer, any Financial Guarantor, the other Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom.

(b) *Indemnification of the Security Trustee*

Subject to the Entrenched Rights and Reserved Matters of the Security Trustee, the Security Trustee will only be required to take any action under or in relation to, or to enforce or protect the Security, or any other security interest created by a Finance Document, or a document referred to therein, if instructed to act by the Majority Creditors or Secured Creditors (or their representatives) (as appropriate) and if indemnified to its satisfaction.

(c) *Directions, Duties and Liabilities*

Neither the Security Trustee nor the Bond Trustee, in the absence of its own wilful misconduct, gross negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the Majority Creditors or Secured Creditors (or their representatives) (as appropriate), shall in any way be responsible for any loss, costs, damages or expenses or other liability, which may result from the exercise or non-exercise of any consent, waiver, power, trust, authority or discretion vested in the Security Trustee or the Bond Trustee pursuant to the STID, any Finance Document or any Ancillary Document.

19. **European Economic and Monetary Union**

(a) *Notice of redenomination*

The Issuer may, without the consent of the Bondholders, and on giving at least 30 days' prior notice to the Bondholders, the Financial Guarantors, the Bond Trustee and the Principal Paying Agent, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Bonds falling on or after the date on which the United Kingdom becomes a Participating Member State.

(b) *Redenomination*

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

- (i) the Bonds of each Sub-Class denominated in sterling (the "**Sterling Bonds**") shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Bond equal to the principal amount of that Bond in sterling, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty establishing the European Union, as amended, (including compliance with rules relating to rounding in accordance with European Community regulations), provided, however, that, if the Issuer determines, with the agreement of the Bond Trustee, that the then current market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders, the London Stock Exchange and any stock exchange (if any) on which the Bonds are then listed and the Principal Paying Agent of such deemed amendments;
- (ii) if Bonds have been issued in definitive form:
 - (A) all Bonds denominated in sterling will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Bondholders and the Bond Trustee that replacement Bonds denominated in Euro are available for exchange (provided that such Bonds are available) and no payments will be made in respect thereof;
 - (B) the payment obligations contained in all Bonds denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Bonds in accordance with this Condition 19) shall remain in full force and effect; and
 - (C) new Bonds denominated in Euro will be issued in exchange for Sterling Bonds in such manner as the Principal Paying Agent or the Registrar, as the case may be, may specify and as shall be notified to the Bondholders in the Euro Exchange Notice;
- (iii) all payments in respect of the Sterling Bonds (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by cheque drawn on, or by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and
- (iv) a Bond may only be presented for payment on a day which is a business day in the place of presentation.

(c) *Interest*

Following redenomination of the Bonds pursuant to this Condition 19:

- (i) where Sterling Bonds have been issued in definitive form, the amount of interest due in respect of the Sterling Bonds will be calculated by reference to the aggregate principal amount of the Sterling Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01; and

- (ii) the amount of interest payable in respect of each Sub-Class of Sterling Bonds for any Interest Period shall be calculated by applying the Interest Rate applicable to the Sub-Class of Bonds denominated in Euro ranking *pari passu* to the relevant Sub-Class.

20. **Miscellaneous**

(a) *Governing Law*

The Bond Trust Deed, STID, the Security Agreement, the Bonds, the Coupons, the Receipts, the Talons (if any), the relevant Financial Guarantee (if any) and the other Finance Documents are, and all matters arising from or in connection with such documents shall be governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*

The courts of England are to have exclusive jurisdiction to settle any dispute that may arise out of or in connection with the Bonds, the Coupons, the Receipts, the Talons, the relevant Financial Guarantee (if any) and the Finance Documents and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons, the Receipts, the Talons (if any) the relevant Financial Guarantee (if any) and/ or the Finance Document may be brought in such courts. The Issuer has in each of the Finance Documents irrevocably submitted to the jurisdiction of such courts.

(c) *Third Party Rights*

No person shall have any right to enforce any term or condition of the Bonds or the Bond Trust Deed under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any rights or remedy which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

FORMS OF THE BONDS

Form and Exchange – Bearer Bonds

Each Sub-Class of Bonds initially issued in bearer form will be issued either as a temporary global bond (the "**Temporary Global Bond**"), without Coupons or Talons attached, or a permanent global bond (the "**Permanent Global Bond**"), without interest Coupons or Talons attached, in each case as specified in the relevant Final Terms. Each Temporary Global Bond or, as the case may be, Permanent Global Bond (each a "**Global Bond**") will be delivered on or prior to the issue date of the relevant Sub-Class of the Bonds to a 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 will also specify whether United States Treasury Regulation §1.163-(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Bonds.

Temporary Global Bond exchangeable for Permanent Global Bond

If the relevant Final Terms specifies the form of Bonds as being represented by "Temporary Global Bond exchangeable for a Permanent Global Bond", then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Coupons or Talons attached, not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the specified office of the Paying Agent; and
- receipt by the Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Sub-Class of Bonds with the Sub-Class of Bonds represented by the first Temporary Global Bond.

The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form ("**Definitive Bonds**"):

- on the expiry of such period of notice as may be specified in the relevant Final Terms;
- at any time, if so specified in the relevant Final Terms;
- if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal

holidays) or announces an intention permanently to cease business; or (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; or

- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Temporary Global Bond exchangeable for Definitive Bonds

If the relevant Final Terms specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bonds" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds.

If the relevant Final Terms specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bonds" and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the issue of such Bonds.

Permanent Global Bond exchangeable for Definitive Bonds

If the relevant Final Terms specifies the form of Bonds as being "Permanent Global Bond exchangeable for Definitive Bonds", then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Definitive Bonds:

- on the expiry of such period of notice as may be specified in the relevant Final Terms;
- at any time, if so specified in the relevant Final Terms;
- if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; or
- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with

Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

In the event that a Global Bond is exchanged for Definitive Bonds, such Definitive Bonds shall be issued in Specified Denominations(s) only. Bondholders who hold Bonds in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant date of exchange, a principal amount of Bonds such that their holding is an integral multiple of a Specified Denomination.

Conditions applicable to the Bonds

The Conditions applicable to any Definitive Bond will be endorsed on that Bond and will consist of the Conditions set out under "*Terms and Conditions of the Bonds*" above and the provisions of the relevant Final Terms which supplement, amend, vary and/or replace those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bond to the extent described under "*Provisions Relating to the Global Bonds*".

Legend concerning United States persons

Global Bonds and Definitive Bonds having a maturity of more than 365 days and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Bond, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Form and Exchange – Global Bond Certificates

Global Certificates

Registered Bonds held in Euroclear and/or Clearstream, Luxembourg and/or any other clearing system will be represented by a global bond certificate (each a "**Global Bond Certificate**") which will be registered in the name of a nominee for, and deposited with, a depository for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

Exchange

The Global Bond Certificate will become exchangeable in whole, but not in part, for individual bond certificates (each an "**Individual Bond Certificate**") if (a) Euroclear or Clearstream, Luxembourg and/or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; (c) at any time at the request of the registered Holder if so specified in the Final Terms; or (d) the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Global Bond Certificate.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within seven Business Days of the delivery, by or on behalf of the registered Holder of the Global Bond

Certificate to the Registrar or the Transfer Agents (as the case may be) of such information as is required to complete and deliver such Individual Bond Certificates (including the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the specified office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar or the Transfer Agents (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Rights Against Issuer

Under the Bond Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Bond Trust Deed and the STID) acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Bond or Global Bond Certificate became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system (as the case may be).

Provisions Relating To The Bonds While In Global Form

Clearing System Accountholders

References in the Conditions of the Bonds to "**Bondholder**" are references to the bearer of the relevant Global Bond or the person shown in the records of the relevant clearing system as the holder of the Global Bond Certificate.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond or a Global Bond Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or, in the case of Wrapped Bonds, the relevant Financial Guarantor, to such Accountholder and in relation to all other rights arising under the Global Bond or Global Bond Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Bond or Global Bond Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond or Global Bond Certificate, Accountholders shall have no claim directly against the Issuer or, in the case of Wrapped Bonds, the relevant Financial Guarantor in respect of payments due under the Bonds and such obligations of the Issuer and, in the case of Wrapped Bonds, the relevant Financial Guarantor will be discharged by payment to the bearer of the Global Bond or the registered holder of the Global Bond Certificate, as the case may be.

Amendment to Conditions

Global Bonds will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Prospectus. The following is a summary of certain of those provisions:

- *Meeting:* The holder of a Global Bond or Global Bond Certificate shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of a Global Bond or Global Bond Certificate shall be treated as having one vote in respect of each minimum denomination of Bonds for which such Global Bond or Global Bond Certificate may be exchanged.

- *Cancellation*: Cancellation of any Bond represented by a Global Bond or Global Bond Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Bond or Global Bond Certificate.
- *Notices*: So long as any Bonds are represented by a Global Bond or Global Bond Certificate and such Global Bond or Global Bond Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant Clearing System, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to the Euroclear, Clearstream, Luxembourg or any other relevant Clearing System for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions.

PRO FORMA FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Bonds issued under the Programme.

Final Terms dated [•]

THAMES WATER UTILITIES CAYMAN FINANCE LIMITED

Issue of [Sub-Class [-[•] (*delete as appropriate*)] [Aggregate Nominal Amount of Sub-Class]

[Title of Bonds]

[(if Class A Wrapped Bonds or Class B Wrapped Bonds issued including the following):

unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest

by

[Name of Financial Guarantor]

under the £10,000,000,000 Guaranteed Bond Programme

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Prospectus dated 24 August 2007 [and the supplemental Prospectus dated [•] which [together] constitute[s] (i) a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and (ii) listing particulars for the purposes of Listing Rule 2.2.11 of the Listing Rules of the Financial Services Authority (the "**Listing Rules**"). This document constitutes the Final Terms of the Bonds described herein for the purposes of [Article 5.4 of the Prospectus Directive] [Listing Rule 4.2.3 of the Listing Rules] and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectus. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [•].]

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [•]. This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and Listing Rule 4.2.3 of the Listing Rules of the Financial Services Authority (the "**Listing Rules**") and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [•], which

[together] constitute[s] a base prospectus for the purposes of the Prospectus Directive and (ii) listing particulars for the purposes of Listing [•] Rule 2.2.11 of the Listing Rules, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [•]] and are attached hereto. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectuses dated [•] and [•]. [The Prospectuses [and the supplemental Prospectuses] are available for viewing at [•].]

[Repayment of the principal and payment of any interest or premium in connection with the Bonds has not been guaranteed by any Financial Guarantor or by any other financial institution.]

[*Note: include above paragraph if no Wrapped Bonds are being described in the Final Terms.*]

[*When completing Final Terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute (i) (in the case of an application to list the Bonds on the London Stock Exchange's Gilt-Edged and Fixed Interest Market) "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive or (ii) (in the case of an application to list the Bonds on the London Stock Exchange's Professional Securities Market) "a significant change" and consequently trigger the need for a supplement to the Prospectus under section 81 of the FSMA.*]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.*]

- | | | |
|----|--|--|
| 1. | (i) Issuer: | Thames Water Utilities Cayman Finance Limited |
| | (ii) Guarantors | Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and Thames Water Utilities Finance Limited |
| | (iii) Financial Guarantors: | [Insert name of Financial Guarantor]
<i>[delete if not Wrapped Bonds]</i> |
| 2. | (i) Series Number: | [•] |
| | (ii) Sub-Class Number:
<i>(If fungible with an existing Sub-Class, details of that Sub-Class, including the date on which the Bonds become fungible).</i> | [•] |
| 3. | Relevant Currency or Currencies | [•] |
| 4. | Aggregate Nominal Amount: | |
| | (i) Series: | [•] |
| | (ii) Sub-Class: | [•] |
| | (iii) Tranche: | [•] |

5. (i) Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]*] (*in the case of fungible issues only, if applicable*)
- (ii) Net proceeds: (required only for listed issues) [•]
6. Specified Denominations: [•]
(To avoid certain on-going reporting obligations under the Transparency Directive and to fall within the wholesale debt securities regime, the minimum denomination should be Euro 50,000 or equivalent if Bonds to be listed on an EU regulated market. In the case of Registered bonds, this means the minimum integral amount in which transfers can be made). Bonds (including Bonds denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies.)
- "Tradeable Amount" *[If a Global Bond is specified as being exchangeable for Definitive Bonds at the option of the Bondholder, 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) and multiples thereof.]*
7. (i) Issue Date: [•]
- (ii) Interest Commencement Date (if different from the Issue Date): [•]
8. Maturity Date: *[specify date or (for Floating Rate Bonds) Interest Payment Date falling in [the relevant month and year]]*
9. Instalment Date: [Not applicable/specify]
10. Interest Basis: [[•] per cent. Fixed Rate]
 [[specify reference] +/-[•] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [specify other]
11. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]

- [Partly Paid]
[Instalment]
[Dual Currency]
[specify other]
12. Change of Interest Redemption/Payment Basis: or [Specify details of any provision for convertibility of Bonds into another interest or redemption/payment basis]
13. Call Options: Issuer Call Option [(further particular specified below)]
14. (i) Status and Ranking: [if Class A Wrapped Bonds or Class A Unwrapped Bonds]
- The Class A Wrapped Bonds and Class A Unwrapped Bonds rank *pari passu* among each other in terms of interest and principal payments and rank in priority to the Class B Bonds.
- [if Class B Wrapped Bonds or Class B Unwrapped Bonds:]
- The Class B Wrapped Bonds and the Class B Unwrapped Bonds rank *pari passu* among each other and are subordinated in terms of interest and principal payments to the Class A Bonds.
- (ii) Status of the Guarantees: Senior
- (iii) Status of the Financial Guarantee: The Financial Guarantee will rank *pari passu* with all unsecured obligations of the Financial Guarantor.
- (iv) FG Event of Default [Only required if Wrapped Bonds. Specify for Financial Guarantor]
- (v) [Date [Board] approval for issuance of Notes [and Guarantee] obtained: [•] [and [•], respectively]]
- [N.B. Only relevant where Board (or similar) authorisations is required for the particular tranche of Notes or related Guarantee]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Bond Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Rate: [•] per cent. per annum [payable annually/semi-annually/quarterly/monthly] in arrear]

- (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with [*specify Business Day Convention and applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
 - (iii) Fixed Coupon Amounts(s): [•] per [•] in Nominal Amount
 - (iv) Broken Amounts(s): [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)*]
 - (v) Day Count Fraction: [Actual/Actual ICMA] [30/360 or 360/360 or Bond Basis] [specify other]
 - (vi) Determination Date [•] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon - only relevant where day count fraction is Actual/Actual (ICMA)*)
 - (vii) Other terms relating to the method of calculating interest for Fixed Rate Bonds: [Not Applicable/*give details*]
 - (viii) Reference Gilt [•]
17. Floating Rate Bond Provisions: [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Specified Period(s)/Specified Interest Payment Dates: [•]
 - (ii) First Interest Payment Date: [•]
 - (iii) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
 - (iv) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
 - (v) Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank): [Not applicable/Calculation Agent]
 - (vi) Screen Rate Determination:

- Relevant Rate: [•]
(Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement)
- Interest Determination Date(s): [•]
(Second Business Day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
- Relevant Screen Page: [•]
(In the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
 - Floating Rate Option: [•]
 - Designated Maturity: [•]
 - Reset Date: [•]
- (viii) Margin(s): [+/-][•] per cent. per annum
 - [Step-Up Fees:] [•]
 - [Step-Up Date:] [•]
- (ix) Minimum Interest Rate: [Not Applicable]
- (x) Maximum Interest Rate: [Not Applicable]
- (xi) Day Count Fraction: [Actual/365 or Actual/Actual]
[Actual/365 Fixed] [Actual/360]
[30/360 or 360/360 or Bond Basis]
[30E/360 or Eurobond Basis]
- (xii) Additional Business Centre(s): [•]
- (xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Conditions: [•]
- (xiv) Relevant Financial Centre [•]

- (xv) Representative Amount [•]
18. Zero Coupon Bond Provisions: [Applicable/Not Applicable]
(if not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Accrual Yield: [•] per cent. per annum [•] per cent. per annum
- (ii) Reference Price: [•] [•]
- (iii) Any other formula/basis of determining amount payable: [•]
- (iv) Day Count Fraction in relation to Redemption Amounts and late payment: [Condition 8(e)/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)
19. Indexed Bond Provisions: [Applicable/Not Applicable]
[If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [Annex details]
- (ii) Interest Rate: [•]
- (iii) Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank): [Not applicable/Calculation Agent]
- (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: Applicable — Condition 7(c) and 7(e)
- (v) Interest Payment Dates: [•]
- (vi) First Interest Payment Date: [•]
- (vii) Business Day Convention: [Following Business Day Convention / Modified Following Business Day Convention/ Preceding Business Day Convention/other (give details)]
- (viii) Business Centres: [•]
- (ix) Minimum Indexation Factor: [Not applicable/specify]
- (x) Maximum Indexation Factor: [Not Applicable/specify]
- (xi) Limited Indexation Month(s): [•]
- (xii) Reference Gilt [•]

- (xiii) Day Count Fraction: [Actual/Actual ICMA] [Actual/365 or Actual/Actual]
[Actual/365 Fixed] [Actual/360]
[30/360 or 360/360 or Bond Basis]
[30E/360 or Eurobond Basis]
20. Dual Currency Bond Provisions [Applicable/Not Applicable]
[If not applicable, delete the remaining subparagraphs of this paragraph]
- (i) Rate of Exchange/method of calculating Rate of Exchange: [Give details]
- (ii) Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank): [Not applicable/Calculation Agent]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
- (iv) Person at whose option Relevant Currency(ies) is/are payable: [•]

PROVISIONS RELATING TO REDEMPTION

21. Call Option: [Applicable in accordance with Condition 8(b)/Not Applicable]
[If not applicable, delete the remaining subparagraphs of this paragraph]
- (i) Optional Redemption Date(s): Any Interest Payment Date [In the case of Floating Rate Bonds, not before [•] and at a premium of [•], if any.]
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [•]
- (iii) if redeemable in part:
- (a) Minimum Redemption Amount: [Not applicable]
- (b) Maximum Redemption Amount: [Not applicable]
- (iv) Notice period (if other than as set out in the Conditions): [Not applicable]
22. Final Redemption Amount: [Par/other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE BONDS

23. Form of Bonds: [Bearer/Registered]
- (i) If issued in Bearer form: [Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]
- [Temporary Global Bond exchangeable for Definitive Bonds on [•] days' notice].
- [Permanent Global Bond exchangeable for Definitive Bonds on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]
- [If a Global Bond is specified as being exchangeable for Definitive Bonds at the option of the Bondholder, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and multiples thereof.]*
- (ii) If Registered Bonds: [Global Bond Certificate exchangeable for Individual Bond Certificates]
24. Relevant Financial Centre(s) or other special provisions relating to Payment Dates: [Not applicable/give details.]
25. Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature): [Yes/No. If yes, give details]
26. Details relating to Partly Paid Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Bonds and interest due on late payment: [Not applicable/give details.]
27. Details relating to Instalment Bonds: [Not applicable/give details.]
- (i) Instalment Date: [•]
- (ii) Instalment Amount: [•]

28. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 19/annexed to this Final Terms] apply]
29. Consolidation provisions: [Not Applicable/The provisions annexed to this Final Terms apply]
30. Other terms or special conditions: [Not Applicable/give details]
- (When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*
31. TEFRA rules: [TEFRA C/TEFRA D/Not applicable]

ISSUER/TWUL LOAN TERMS

32. Interest rate on relevant Term Advance/ Index Linked Advances: [•]
33. Term of relevant Term Advance/Index Linked Advances: [•]
34. Other relevant provisions: [•]

DISTRIBUTION

35. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]
36. If non-syndicated, name of Dealer: [Not Applicable/give name]
37. Additional selling restrictions: [Not Applicable/give details]

LISTING AND ADMISSION TO TRADING APPLICATION

This Final Terms comprises the details required to list the issue of Bonds described herein pursuant to the listing of the Programme for the issuance of up to £10,000,000,000 Guaranteed Bonds financing Thames Water Utilities Limited.

RESPONSIBILITY

The Issuer and each Guarantor accepts responsibility for the information contained in this Final Terms [save for the [Financial Guarantor] Information]*

[The Financial Guarantor accepts responsibility for the [Financial Guarantor] Information contained in this Final Terms.]

Signed on behalf of the Issuer:

By:.....

Duly authorised

Signed on behalf of Thames Water Utilities Limited:
By:.....
.....
Duly authorised

Signed on behalf of Thames Water Utilities Holdings Limited:
By:.....
.....
Duly authorised

Signed on behalf of Thames Utilities Finance Limited:
By:.....
.....
Duly authorised

[Signed on behalf of the Financial Guarantor]*:
By:.....
.....
Duly authorised

* Delete as applicable

PART B - OTHER INFORMATION

1. Listing

- (i) Listing: [London/Luxembourg/other (specify)/None]
- (ii) Admission to trading: [Application has been made for the Bonds to be admitted to trading on [•] with effect from [•]. [Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [•]

2. Ratings

Ratings: The Bonds to be issued have been rated:

[S&P: [•]]

[Moody's: [•]]

(The above disclosure should reflect the rating allocated to Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. [Notification]

The UK Listing Authority [has been requested to provide/has provided - include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["*Subscription and Sale*"], so far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer."

5. **Reasons for the offer, estimated net proceeds and total expenses**

(i) [Reasons for the offer: [•]

(See ["Use of Proceeds"] wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]

(ii) [Estimated net proceeds: [•]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding)]

(iii) [Estimated total expenses: [•] *(Include breakdown of expenses.)*

(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above).]⁽¹⁾

6. **[Fixed Rate Bonds only –
YIELD**

Indication of yield: [•]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. **[Floating Rate Bonds Only - HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

8. **[Index-Linked or other variable-linked Bonds only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]⁽²⁾

[Include a description of any market disruption or settlement disruption that effect the underlying.]

[Include adjustment rules with relation to events concerning the underlying.]

9. **[Dual currency Bonds only – PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]⁽³⁾

10. **Operational information**

ISIN Code: [•]

Common Code: [•]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s): *[Not Applicable/give name(s) and member(s) [and address(es)]]*

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [•]

Notes:

⁽¹⁾ Required for derivative securities

⁽²⁾ Required for derivative securities

⁽³⁾ Required for derivative securities

CHAPTER 9 USE OF PROCEEDS

The gross proceeds from the issue of Bonds on the Initial Issue Date will be used directly or indirectly by the Issuer, among other things, to make advances to TWUL under the Initial Issuer/TWUL Loan Agreement to enable TWUL to make a loan to TWH under the TWUL/TWH Loan Agreement (to enable TWH to make certain distributions and repayments that will enable Kemble Water Limited to repay amounts owing under the Bridge Facility Agreement) and repay certain other intercompany indebtedness.

The proceeds from each subsequent issue of Bonds under the Programme will be on-lent to TWUL under the terms of further Issuer/TWUL Loan Agreements to be applied by TWUL for its general corporate purposes or used to repay or service TWUL's Financial Indebtedness.

CHAPTER 10 TAX CONSIDERATIONS

The following is a summary of the UK withholding tax treatment in relation to payments of principal and interest in respect of the Bonds as at the date of this Prospectus. These comments do not deal with other UK tax aspects of acquiring, holding or disposing of Bonds. Prospective purchasers who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK should consult their professional advisors. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK. This summary as it applies to UK taxation is based upon UK law and HM Revenue & Customs practice as in effect on the date of this Prospectus and is subject to any change in law or practice that may take effect after such date.

UK Withholding Tax on UK Source Interest

The Bonds issued by the Issuer will constitute "**quoted Eurobonds**" within the meaning of Section 987 of the Income Tax Act 2007 provided they are and continue to be listed on a recognised stock exchange. The London Stock Exchange is a recognised stock exchange for these purposes. The securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the UK Listing Authority and are admitted to trading on the London Stock Exchange. While the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of UK income tax.

In addition, even if the Bonds do not constitute quoted Eurobonds, no withholding or deduction for or on account of UK income tax will apply if the relevant interest is paid on Bonds with a maturity of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Bonds part of a borrowing with a total term of a year or more.

Subject to "*Payments by the Financial Guarantor*" below, in cases falling outside the two exemptions described above, interest on the Bonds will generally, unless another exemption is available, be paid under deduction of UK income tax at the savings rate (currently 20 per cent.). If UK withholding tax is imposed, the Issuer will not pay additional amounts in respect of the Bonds.

Payments by a Financial Guarantor under the Financial Guarantees

If a Financial Guarantor makes any payments in respect of interest on the Wrapped Bonds (or other amounts due under the Wrapped Bonds other than the repayment of amounts subscribed for such Bonds) such payments may be subject to UK withholding tax at the basic rate (currently 22 per cent.) or at the savings rate. Such payments by a Financial Guarantor may not be eligible for any of the other exemptions described in the section "*UK Withholding Tax on UK Source Interest*" above. If UK withholding tax is imposed, then a Financial Guarantor will not pay any additional amounts under the Financial Guarantees.

Provision of Information by UK Paying and Collecting Agents

Persons in the UK (i) paying interest to or receiving interest on behalf of another person who is an individual, or (ii) paying amounts due on redemption of any Bonds which constitute deeply discounted securities as defined in chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual, may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances such information may be exchanged with tax authorities in other countries.

For the purposes of this section, "**interest**" should be taken, for practical purposes, as including payments made by the Financial Guarantor in respect of interest on Wrapped Bonds.

The provisions referred to above may also apply, in certain circumstances, to payments made on the redemption of any Bonds where the amount payable on redemption is greater than the issue price of the Bonds.

Other Rules relating to United Kingdom Withholding Tax

Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Bonds should not be subject to any UK withholding tax pursuant to the provisions mentioned in the section "*UK Withholding Tax on UK Source Interest*" above, but may be subject to reporting requirements as outlined in the section "*Provision of Information by UK Paying and Collecting Agents*" above.

Where Bonds are issued with a redemption premium, as opposed to being issued at a discount, then any element of such premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of UK income tax, Bondholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in UK tax law. The above statements do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation.

EU Savings Directive

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Belgium, Luxembourg and Austria will instead impose a withholding system for a transitional period unless during such period they elect otherwise. A number of third countries and territories including Switzerland have adopted similar measures to the EU Directive.

CAYMAN ISLANDS TAX CONSIDERATIONS

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bond under the laws of their country of citizenship, residence or domicile.

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands Laws:

1. payments of interest and principal on the Bonds will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Bonds, as the case may be, nor will gains derived from the disposal of the Bonds be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;
2. no stamp duty is payable in respect of the issue or transfer of the Bonds although duty may be payable if Bonds are executed in or brought into the Cayman Islands; and
3. certificates evidencing the Bonds, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring

title to a Bond, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

The Tax Concessions Law

1999 Revision

Undertaking as to Tax Concessions

In accordance with the provision of Section 6 of The Tax Concession Law (1999 Revision), the Governor in Cabinet undertakes with Thames Water Utilities Cayman Finance Limited (the "**Issuer**").

1. That no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations; and
2. In addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (a) on or in respect of the shares, debentures or other obligations of the Issuer; or
 - (b) by way of the withholding in whole or in part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

These concessions shall be for a period of twenty years from the 10th day of July 2007.

CHAPTER 11 SUBSCRIPTION AND SALE

Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of Barclays Bank PLC, Dresdner Bank AG London Branch, HSBC Bank plc, Royal Bank of Canada Europe Limited and Macquarie Bank Limited, London Branch and any other dealer appointed from time to time (the "Dealers") pursuant to the dealership agreement dated on or about the date of this Prospectus made between, amongst others, TWUL, the Issuer, the Joint Arrangers and the Dealers (the "**Dealership Agreement**"). The arrangements under which a particular Sub-Class of Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in the Dealership Agreement and the subscription agreements relating to each Sub-Class of Bonds. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Bonds, the price at which such Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series, Class or Sub-Class of Bonds.

In the Dealership Agreement, the Issuer, failing whom TWUL, has each agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and maintenance of the Programme and the issue of Bonds under the Dealership Agreement and each of the Obligors has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States of America

The Bonds and any guarantees in respect thereof have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them in Regulation S.

Bearer Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Code.

Each Dealer has agreed that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Bonds comprising the relevant Sub-Class, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Sub-Class of Bonds to or through more than one Dealer, by each of such Dealers as to the Bonds of such Sub-Class purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them in Regulation S.

In addition, until 40 days after the commencement of the offering of Bonds comprising any Sub- Class, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under The Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made

and will not make an offer of Bonds to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

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

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed that:

- (a) **No deposit-taking:** in relation to any Bonds having 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:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) 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) **Financial Promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 FSMA does not apply to the Issuer; and
- (c) **General Compliance:** it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Cayman Islands

No invitation or solicitation will be made to the public in the Cayman Islands to subscribe for the Bonds.

General

Save for obtaining the approval of the Prospectus by the UK Listing Authority in accordance with Part VI of the FSMA for the Bonds to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Market, no action has been or will be taken in any jurisdiction by the Issuer, the other Obligors or the Dealers that would permit a public offering of Bonds, or possession or distribution of the Prospectus or any other offering material, in any jurisdiction where action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws, regulations and directives in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute the Prospectus or any other offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific country or jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in the official interpretation, after the date of the Dealership Agreement, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Sub-Class of Bonds) or (in any other case) in a supplement to this Prospectus.

CHAPTER 12 GENERAL INFORMATION

Authorisation

The establishment of the Programme, the issue of Bonds thereunder and the giving of the guarantee by the Issuer of the obligations of TWUL and TWUF have been duly authorised by resolutions of the Board of Directors of the Issuer passed at a meeting of the Board held on 14 August 2007. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

The giving of the guarantees by each of TWUL, TWUF and TWH will be duly authorised by a resolution of the Board of Directors of each of TWUL, TWUF and TWH, respectively, each of which will be dated 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 Market will be admitted separately as and when issued, subject only to the issue of a Global Bond or Bonds initially representing the Bonds of such Sub-Class. In the case of each Sub-Class of Wrapped Bonds, admission to the Official List and to trading on the Market is subject to the issue of the relevant Financial Guarantee by the relevant Financial Guarantor in respect of such Sub-Class. The listing of the Programme in respect of Bonds is expected to be granted on or around the Initial Issue Date.

However, Bonds may also be issued pursuant to the Programme which will not be listed on the Market or any other Stock Exchange or which will be listed on such Stock Exchange as the Issuer and the relevant Dealer(s) may agree.

Documents Available

For so long as the Programme remains in effect or any Bonds shall be Outstanding, copies of the following documents may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee:

- (i) the Memorandum and Articles of Association of each of the Issuer and the other Obligors
- (ii) the audited financial statements of TWUL for the year ended 31 December 2005 and the 15 months ended 31 March 2007;
- (iii) the audited financial statements of TWUF for the year ended 31 December 2005 and the 15 months ended 31 March 2007;
- (iv) a copy of this Prospectus;
- (v) any Final Terms relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Bonds which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms will only be available for inspection by the relevant Bondholders);
- (vi) each Investors' Report;
- (vii) each Financial Guarantee and all related Endorsements relating to each Sub-Class of Wrapped Bonds issued under the Programme;
- (viii) each G&R Deed; and
- (ix) the Bond Trust Deed.

Transparency Directive

Under the terms of the CTA, the Issuer is required, if it is impracticable or unduly burdensome to maintain the admission of all listed Bonds to trading on the London Stock Exchange, to use reasonable endeavours to procure and maintain an alternative listing. Directive 2004/109/EC of the European Parliament and the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (the "**Transparency Directive**") which came into force on 20 January 2005. It requires member states to take measures necessary to comply with the Transparency Directive by 20 January 2007. As a result of the Transparency Directive or any legislation implementing the Transparency Directive, the Issuer or the Guarantors could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information. If the Issuer considers such obligation to be unduly burdensome, the Issuer may decide to delist the Bonds from the Official List and the Market and to seek an alternative listing of the Bonds on an exchange-regulated market or on a stock exchange outside the European Union.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Sub-Class of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Bonds are to clear through an additional or alternative clearing system (including Sicovam) the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

Significant or Material Change

There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of each of the Issuer or TWH since their respective dates of incorporation.

There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of each of TWUL or TWUF since 31 March 2007.

Litigation

Save as disclosed under the heading "*Guaranteed Standards Scheme and Non-financial Data Integrity*" in Chapter 4 "*Description of the TWU Financing Group*" on page 30, none of the Issuer, TWUF, TWH or TWUL is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the relevant Obligor is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of the Issuer, TWUF, TWH or TWUL, respectively.

Availability of Financial Statements

The audited annual financial statements of the Issuer and the audited annual financial statements of TWUL, TWUF and TWH will be prepared as of 31 March in each year. None of the Issuer, TWUF or TWH have published and, in the case of TWH and the Issuer, do not intend to publish any interim financial statements, but each of TWUL and TWUF intends to publish semi-annual unaudited financial statements. The unaudited interim (if any) financial statements of TWUL and TWUF will be prepared as of 30 September in each year. All future audited annual financial statements (and any published interim financial statements) of the Issuer and the audited annual financial statements of each of TWUL, TWUF and TWH will be available free of charge in accordance with "*Documents Available*" above.

Auditors

The Auditors of TWUL, TWH, TWUF and the Issuer are PricewaterhouseCoopers LLP, of 9 Greyfriars Road, Reading, Berkshire RG1 1JG which is a member firm of the Institute of Chartered Accountants in England and Wales. The statutory audited accounts of TWUL and TWUF have been prepared, in accordance with generally accepted auditing standards in the United Kingdom, in each case for the year ended 31 December 2005 and 15 months ended 31 March 2007, and in each case the Auditors have given unmodified reports which contained no statement under section 237(2) or (3) of the Companies Act. These audited accounts have been delivered to the Registrar of Companies.

Consents

PricewaterhouseCoopers LLP as the reporting accountants of each of TWH and the Issuer, has given and has not withdrawn its consent to the inclusion at Appendix D (*Accountants' Report on TWH*) and Appendix E (*Accountants' Report on the Issuer*) of this Prospectus, of its accountants reports in respect of TWH and the Issuer, respectively, in the form and context in which they appear, and has authorised the contents of those parts of this Prospectus for the purposes of paragraph 5.5.3R(2)(f) of the prospectus rules made under the FSMA (the "**Prospectus Rules**").

Atkins Limited, as technical advisers to TWUL, has given and not withdrawn its consent to the inclusion at Appendix B (*Atkins Limited Technical letter*) of this Prospectus of the letter summarising their technical due diligence report in the form and context in which they appear and has authorised the contents of that part of this Prospectus for the purposes of paragraph 5.5.3R(2)(f) of the Prospectus Rules.

Bond Trustee's reliance on reports and legal opinions

Certain of the reports of accountants and other experts to be provided in connection with the Programme and/or the issue of Bonds thereunder may be provided on terms whereby they contain a limit on the liability of such accountants or other experts.

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, Receipts, Talons and Coupons appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Bond, Coupon, Receipt or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon, Receipt or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Information in respect of the Bonds

The issue price and the amount of the relevant Bonds will be determined, before filing of relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Bonds.

**APPENDIX A
OFWAT LETTER**

MD166

**TO MANAGING DIRECTORS OF ALL
WATER AND SEWERAGE COMPANIES AND
WATER ONLY COMPANIES**

31 January 2001

THE REGULATORY FRAMEWORK

Following the 1999 Periodic Review, a number of companies have considered the possibility of establishing new structural arrangements in order to carry out their duties as water and sewerage undertakers. In November last year, I issued a consultation paper on one such proposal, that of the intention of Glas Cymru to acquire Dwr Cymru (Welsh Water). I have today issued a further paper that sets out my conclusions on this proposal. In this paper I referred to my intention to set out in a MD letter the duties of the Director General of Water Services in relation to all regulated water and sewerage undertakers, irrespective of their structure. This is set out in the attached appendix together with how these duties are put into practice, in particular at Periodic Reviews.

The appendix also explains the protections in the Licence that allow the Appointee, in particular circumstances, to seek an increase in price limits between Periodic Reviews. Finally, it summarises the protection for creditors (including lenders) that the Water Act 1991 provides should an Appointee's licence be terminated.

The majority of the material in the appendix has already been issued into the public domain in various ways but it has now been brought together in one place for ease of reference.

I am not formally requesting responses on the contents of the MD letter but if recipients have comments they wish to make, I would welcome them.

PHILIP FLETCHER

APPENDIX TO OFWAT LETTER

THE DUTIES OF THE DIRECTOR GENERAL OF WATER SERVICES AND THE REGULATORY FRAMEWORK

1. **The Director's duties**

- (i) The Director's primary duties, as set out in the Water Industry Act 1991 ("**the Act**"), are to act in a manner that he considers best calculated to secure that the functions of Appointees are properly carried out and that Appointees are able to finance the proper carrying out of those functions. The Director also has duties to protect the interests of customers, to promote economy and efficiency and to facilitate competition and has certain environmental and recreational duties.

2. **The Director's approach to Periodic Reviews**

- (i) The Director is required to reset price limits at five-yearly reviews. In doing so, he must have regard to his primary duties. Although the detailed methodology is not set out either in the Act or in companies' licence conditions, Ofwat has sought to conduct the reviews in an open and transparent manner and will continue to do so. The principles and methodology that have been adopted have been subject to wide consultation and consequent refinement.
- (ii) Prices are set so that revenues cover the cost of the efficient provision of operations and capital investment, and allow a reasonable return on capital. The ability of the Appointee to maintain an adequate level and trend of critical financial indicators is also taken into account. This is with a view to ensuring that, provided the Appointee is efficiently managed and financed, it will remain able to finance its functions (including new investment), readily and at reasonable cost. Where appropriate, account is taken of the Appointee's duty to maintain investment grade credit ratings.
- (iii) Ofwat has taken "capital" to be the "Regulatory Capital Value" ("**RCV**") of the Appointed Business. The criteria for determining the RCV are set out in *Setting price limits for water and sewerage services: The framework and business planning process for the 1999 Review (February 1998)* and updated in MD145, *The framework for setting prices*, published in March 1999. The approach taken at the 1999 Periodic Review built on that adopted at the 1994 review. The initial capital value, as placed on the holding companies of the Appointees by the financial markets in 1989, was adjusted for net new allowable capital expenditure and depreciation charges since then, including at the 1999 review an adjustment to reflect past capital efficiencies, to arrive at the RCV. The implications of subsequent capital transactions including mergers and takeovers have not been taken into account when considering the RCV at Periodic Reviews.
- (iv) At the 1999 Review the return on capital allowed was based on an assessment of the real post-tax weighted average cost of debt and equity for an efficiently-financed stand-alone listed water and sewerage company. This assessment was based on the market's view of a forward-looking cost of capital. Amongst other things, this assessment reflected Ofwat's perception that investors, despite the significant capital investment requirements, viewed the water industry as relatively low risk and that it represents a lower risk than the UK stock market as a whole.
- (v) Ofwat included in the allowed return at the 1999 Periodic Review an adjustment to reflect the prudently incurred cost of long term fixed rate debt. This adjustment was made to take into account a change in the 1999 methodology from the glidepath of returns on existing assets set in 1994. Ofwat also placed greater emphasis on current market evidence of the cost of capital rather than on longer term historical averages. There can, however, be no guarantee that such financing costs will be passed on to customers at future reviews since similar circumstances are unlikely to occur. The Director will be guided primarily by consideration of the Appointee's relative efficiency in managing its financial affairs, just as he will be guided by this

consideration with regard to other areas of costs. An Appointee that fails to maintain the flexibility to respond to changing market conditions risks being judged relatively inefficient.

- (vi) In setting prices, either at a five-yearly Periodic Review or if a company applies for an Interim Determination of price limits, the Director must make judgements as to the efficient level of costs to assume. A wide range of comparative techniques has been used to inform these judgements since privatisation.
- (vii) Ultimately, the Director has discretion over the ways in which price limits are set and he needs to keep under review the regulatory framework in the light of all relevant developments. Consequently, whilst there can be no assurance that future Periodic Reviews will be conducted in the same manner as past ones, nevertheless, the principles underlying the present price review methodology have been developed over the past ten years and have proved robust. For the next Periodic Review, Ofwat will, of course, take into account the conclusions of the recent CC reviews in respect of Mid Kent Water and Sutton & East Surrey Water.

3. **Regulation between five-yearly reviews**

- (i) Companies may seek a change to their price limits between Periodic Reviews under the Interim Determination arrangements set out in their Licences. These can be triggered in defined circumstances, for example, where a new legal obligation is imposed which was not taken into account at the last Periodic Review. These instances have, so far, not been very frequent.
- (ii) A modification to the assessment of materiality for Interim Determinations was published with the Final Determination of price limits for 2000-05. This has now been accepted by the majority of companies. The Director believes that this licence modification strengthens the protection available to companies because it includes the effect of revenue loss and operating expenditure over a 15 year horizon in the assessment as to whether the materiality threshold for triggering a price limit adjustment has been met.
- (iii) The Director has proposed in MD167 (31 January 2001) that the provisions commonly known as the "shipwreck" clause be extended to all companies. The clause enables companies' price limits to be reset between Periodic Reviews if there has been a substantial* adverse or favourable effect that could not have been avoided or is not attributable to prudent management action. The clause was (in its original form) included in all companies' licences at privatisation but was removed or revised as part of a review of Condition B of the licence before the 1995 Periodic Review. Less than half of the companies now have the clause in its licence. One company has asked the Director to reinsert this clause in their licence. The Director believes that it is desirable in principle that water companies' licences should not differ unnecessarily and hence has proposed making the modification to all companies' licences.

4. **Consistency and new ownership structures**

- (i) Following the 1999 Periodic Review a number of companies have explored the possibility of establishing new structural arrangements for the carrying out of their duties as water and sewage undertakers. Companies that choose to structure their business in ways other than the equity-owned, vertically-integrated structure established at privatisation will receive no special or preferential treatment from Ofwat. Licence holders will continue to bear all of the licence obligations of a water and sewerage undertaker. They will continue to be regulated in the same way as other Appointees, and will operate under a price cap and be subject to Periodic Reviews.
- (ii) A consistent approach is particularly important when considering whether licence conditions should be modified from the model which currently applies to the other Appointees. In each case the Director would consider carefully the need for licence modifications and would consult publicly on these.
- (iii) The performance of all companies (in terms of efficiency and customer services) will be judged in a consistent manner, both through the league tables and analysis that Ofwat publishes annually and at Periodic Reviews. The ability to compare companies is an important tool for

the regulator of the water and sewerage companies. It is an essential part of the system of incentive regulation and has led to substantial improvements in efficiency since privatisation.

- (iv) Where Appointees have put in place new structural arrangements, the approach at Periodic Reviews will follow that for an equity-owned, vertically integrated Appointee. For example, the approach to RCVs will be assessed similarly and the weighted average cost of capital will be that which applies to the industry as a whole. The Director will, at the time, take account of the market's view of the cost of capital for the water industry.
- (v) The proposal by a number of companies to separate the ownership of the assets from their operations and to contract out the latter will provide additional information to assist the Director with his assessment of relative efficiency. However, the appropriate level of costs to be assumed within price limits will continue to be assessed on a comparative basis and the existence of competitively tendered prices will not be seen, a priori, as evidence of efficiency nor guarantee that such costs will be fully reflected in price limits.
- (vi) By way of illustration, Ofwat's approach to comparisons of capital programmes has identified widespread differences between companies' unit costs. This is despite these being based upon competitively tendered work or actual costs for capital works. Consequently, at the last Periodic Review, adjustments to capital costs varied from nil to a reduction of 25 per cent.
- (vii) As for all Appointees, Ofwat will ensure that customers' interests continue to be protected after any new structural arrangements are in place through the provisions in the Water Industry Act 1991. This includes, in the last resort, using the powers to apply for the appointment of a Special Administrator in particular circumstances (as set out in Section 5(iv) and 5(v), together with sections 6(iii) and 6(vii)). The main reasons for doing this would be a breach by the company of one of its principal duties in the Act (see sections 47 and 94 of the Act), insolvency or non-compliance with an enforcement order following breach of a licence condition.

5. **Licence termination**

- (i) There are a number of circumstances as provided in the Act in which a particular company could cease to be the licence holder for all or part of its area. These are set out below.
- (ii) An Appointee could consent to the making of a replacement Appointment or a Variation, which changes its Water Supply or Sewerage Service Area. In these circumstances the Director has the authority to appoint a new licence holder.
- (iii) An Appointee's Licence could be terminated in the circumstances set out in Condition O of its Licence. These are that it is at least 25 years after the "**Transfer Date**" (1 September 1989) and 10 years after notice has been served by the Secretary of State (DETR). Termination would occur when a successor had been appointed. The power to terminate each Appointee's licence and appoint a successor in these circumstances lies with the Secretary of State although the Director may be authorised to do those things. When required to do so, Ofwat will advise the Secretary of State on the issue of notice of licence termination for any or all undertakers.
- (iv) An Appointee's Licence could be terminated under the provisions of Special Administration. The Secretary of State* may apply to the High Court for a Special Administration Order and can also authorise the Director to do so. The main reasons for doing this would be a breach by the Appointee of one of its principal duties in the Act (see sections 37 and 94 of the Act) insolvency or non-compliance with an enforcement order following breach of a licence condition.
- (v) A Special Administration Order requires the appointment by the High Court of a Special Administrator. The Special Administrator would have responsibility for transferring the water and sewerage business as a going concern to a successor company or companies, under a scheme which must be approved by the Secretary of State, and running the business in the meantime.

- (vi) The Act also provides in certain circumstances for the appointment of a new Appointee for part of the existing Appointee's Water Supply or Sewerage Service Area. These appointees are more commonly known as "**Inset Appointments**". These are allowed where the appointment relates to a part of the Appointee's area where no premises are served by the licence holder or the premises are supplied with not less than 100 megalitres of water in any period of twelve months or if the licence holder consents. The Director is authorised to appoint a new licence holder when making Inset Appointments.

6. **Creditor protection in the event of licence termination**

- (i) In the event of licence termination by agreement or under the circumstances set out in Condition O (see 5(iii) above) the outgoing Appointee should prepare a "**Transfer Scheme**", covering the transfer of property, rights and liabilities to new Appointee(s). The scheme may provide for debt obligations to be transferred to the new Appointee(s). The scheme would have to be agreed by the outgoing Appointee and the new Appointee and approved by the Secretary of State* or the Director if authorised.
- (ii) In making an Appointment or Variation replacing the incumbent as the Appointee, the Secretary of State (or Director) would (so far as is consistent with his other duties, particularly those in Section 2 of the Act) have to ensure that the interests of its creditors were not unfairly prejudiced by the transfer terms. This would be addressed through the requirement for approval of the Transfer Scheme.
- (iii) Under Special Administration, the Act provides for the replacement of the Appointee by a successor. In the meantime the Special Administrator must run the business in a manner which protects the interests of shareholders and creditors of the company.
- (iv) The Secretary of State*, or with his consent the Director, may approve a Transfer Scheme which moves the Appointed Business into the control of a successor. The Special Administrator would oversee the preparation of the Transfer Scheme.
- (v) There can be no assurance that the transfer following Special Administration could be achieved on terms that enabled creditors of the Appointee to recover amounts due to them in full. The successor Appointee would be subject to the price limits applicable to the original Appointee prior to the transfer becoming effective. Ofwat's duty to protect customers would preclude the granting of price limit relief in such circumstances, unless these were justified by reference to factors other than the Special Administration and the transfer.
- (vi) In addition under Special Administration the Secretary of State (may, with Treasury consent, arrange for financial assistance to be provided for the purpose of achieving the transfer of the business and its running in the meantime.
- (vii) Although the protection of creditors is explicit in the Act, no licence has, as yet, been terminated under Condition O, nor has a Special Administration Order been made or sought.

APPENDIX B
ATKINS LIMITED TECHNICAL LETTER

24 August 2007

Thames Water Utilities Limited
Clearwater Court
Vastern Road
Reading RG1 8DB

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

Macquarie Bank Limited, London Branch
120 London Wall
London EC2Y 5ET

Dresdner Bank AG London Branch
30 Gresham Street
London EC2P 2PG

HSBC Bank plc
8 Canada Square
London E14 5HQ

Royal Bank of Canada Europe Limited
71 Queen Victoria Street
London EC4V 4DE

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB

Dear Sirs

KEMBLE WATER LIMITED – FINANCIAL RE-STRUCTURING

This letter draws together the findings and conclusions of a technical study that we have been engaged to undertake by Kemble Water Limited ("**Kemble**") covering certain of the operations of Thames Water Utilities Limited ("**TWUL**"). The study is an update of an earlier study undertaken on behalf of RWE AG as part of the sale and purchase transaction between RWE AG and Kemble Water Limited which we understand was effected on 1 December 2006. The study has therefore concentrated on identifying the main technical risks to TWUL's regulated water and wastewater business (the "**Regulated Business**") and how those risks may be managed and mitigated within commercial and contractual

constraints. This letter is not, nor is it intended to be, the basis for a recommendation to buy, sell or hold securities or other investments and for the avoidance of doubt any investment decisions should be made on the basis of independent professional financial advice.

The findings and conclusions represented in this letter reflect the professional technical judgement of Atkins Limited ("**Atkins**") on certain operational aspects of TWUL's business and is based solely upon the information made available to it. Atkins, subject to its duty to exercise reasonable skill and care, has relied upon, and not independently verified such information provided. Some key assumptions have been made during the study, such as the validity of expenditure projections in capital and operating costs, the adequacy of the proposed solutions in the capital programme to meet required outputs and likely risks to the business. While Atkins currently has no reason to believe that any of these assumptions is unreasonable, it should be acknowledged that if any of these or other key assumptions prove incorrect, actual outcomes could differ from those indicated. It should further be noted that no representation, warranty or undertaking, express or implied, is made and no liability is accepted by Atkins as to the accuracy or completeness of any information supplied for the purpose of this letter or the report upon which this letter is based.

We have based our study on:

- an assessment of TWUL's submissions to Ofwat and comments made by the Ofwat-appointed reporter (the "**Reporter**") on such submissions including the asset management plan ("**AMP**") for the period from 1 April 2005 to 31 March 2010 (the "**AMP4 Period**") and "June Returns" submitted by TWUL to Ofwat during the AMP4 Period, up to and including the 2007 June Return;
- an assessment of documents and information supplied by TWUL in respect of capital planning, capital expenditure, procurement processes, operational information, environmental and health and safety reporting and operational cost information; and
- meetings and contacts with TWUL's management and study of documents and information requested and supplied to us during the study.

Taking into consideration the above, we conclude as follows:

- **Assets:** serviceability of the assets is assessed annually as part of the June Return process. Ofwat, supported by the Reporter, has assessed the water distribution mains and sewerage non-infrastructure (above ground) assets as "deteriorating", the water non-infrastructure (above ground) assets as "stable" and the sewers as "marginal" in its report in respect of the 2006 June Return submitted to Ofwat by TWUL. TWUL has been focussing on improving the condition and performance of these asset classes and for the period 1 April 2006 to 31 March 2007 (the "**2007 June Return Period**") it has forecast the position as follows: water distribution mains as "marginal"; water non-infrastructure as "stable"; sewers as "stable"; and sewerage non-infrastructure as "deteriorating". In our view, TWUL's Victorian mains replacement programme will contribute to improvements in condition and performance in the water distribution mains serviceability.
- **Leakage:** TWUL reports that targets set by Ofwat have been met for the first time in 3 years. It is acknowledged that good weather conditions have contributed to this success and we believe that continued focus from TWUL management on this issue is required to meet the targets for the remainder of the AMP4 period.
- **Capital expenditure:** TWUL's performance has historically been strong with regulatory outputs provided within the capital allowances. TWUL's management has confirmed the intention to deliver all AMP4 Period regulatory outputs within the capital allowances. Risk allowances have been built into TWUL's capital expenditure programme. There remains a significant amount of capital expenditure to be incurred in the AMP4 Period; TWUL's management is focussed on delivery of the capital expenditure programme and have adopted a more challenging approach to the supply chain to maintain control on costs.

- Operational expenditure ("**Opex**"): Forecasts made by TWUL in February 2007 indicate operational costs will exceed the Ofwat allowance for the first two years of the AMP4 Period. Opex performance for all water companies has been affected by higher than anticipated energy costs and TWUL was affected by the costs of the 2005/06 drought. An opex efficiency programme is in progress which is planned to make significant savings in the remainder of the AMP4 Period.
- Operational performance: TWUL's performance during the 2007 June Return Period is reportedly generally acceptable, with the exception of the number of failing sewage treatment works and higher than planned interruptions to supply. Action plans to redress these areas have reportedly commenced.
- Environmental risks: In common with all water and sewerage companies TWUL faces a number of environmental risks including discharges of treated effluents to watercourses, management of sewage sludges, contamination of land and raw water sources. Apart from investment to meet Ofwat outputs for plant and infrastructure, there are separate investment programmes to reduce contamination and pollution risks. We understand there were no material environmental claims registered in the past two years in the information reviewed.

Based on the above we consider that TWUL has a significant challenge to operate within the AMP4 Period price allowances whilst meeting the required regulatory outputs. In mitigation, TWUL has historically exhibited strong capital expenditure management control and some flexibility remains in the capital budget. During our study, Atkins reviewed technical risks and mitigating factors in respect of the above issues. We consider TWUL is taking appropriate steps to manage these risks and has the management capability and focus to address such risks.

Yours faithfully

Mike Woolgar
Project Director

APPENDIX C
INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS OF TWUL

PART I
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TWUL

We have audited the financial statements of Thames Water Utilities Limited for the 15 month period ended 31 March 2007 which comprise the primary financial statements, such as the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We also, at the request of the directors (because the company applies the Listing Rules of the Financial Services Authority as if it were a listed company), review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code 2003 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit and cash flows for the 15 month period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Reading

28 June 2007

PART II

AUDITED FINANCIAL STATEMENTS OF TWUL

Profit and loss account for the period ended 31 March 2007

	Note	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Turnover		1,778.1	1,333.5
Operating costs	4	<u>(1,249.7)</u>	<u>(883.9)</u>
Operating profit		528.4	449.6
Profit on sale of fixed assets	5	12.1	9.1
Net interest payable and similar charges	7	(205.7)	(142.9)
Other finance income		<u>7.3</u>	<u>6.9</u>
Profit on ordinary activities before taxation		342.1	322.7
Taxation on profit on ordinary activities	8	<u>(101.5)</u>	<u>(94.3)</u>
Profit for the period		240.6	228.4
Dividends	9	<u>(656.3)</u>	<u>(155.0)</u>
Deficit/retained profit for the period	20 & 21	<u>(415.7)</u>	<u>73.4</u>

All amounts above relate to continuing operations.

There is no difference between the profit on ordinary activities before taxation for the periods stated above and their historical cost equivalents.

Statement of total recognised gains and losses

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Profit for the period	240.6	228.4
Actuarial gain on pension scheme (note 24)	81.2	34.9
Deferred tax relating to actuarial gain	<u>(24.4)</u>	<u>(10.5)</u>
Total recognised gains for the period	<u>297.4</u>	<u>252.8</u>
Prior year adjustment in respect of a change in accounting policy - Pensions (FRS 17)	<u>-</u>	<u>(74.2)</u>
Total gains recognised since last report	<u>297.4</u>	<u>178.6</u>

Balance sheet at 31 March 2007

	Note	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Fixed assets			
Tangible assets	10	5,900.4	5,446.7
Investments	11	0.1	0.1
		<u>5,900.5</u>	<u>5,446.8</u>
Current assets			
Stocks and work in progress	12	6.1	6.2
Debtors	13	444.6	466.4
Investments	16	112.5	-
Cash at bank and in hand		89.4	10.3
		<u>652.6</u>	<u>482.9</u>
Creditors: amounts falling due within one year	14	(730.9)	(864.8)
Net current liabilities		<u>(78.3)</u>	<u>(381.9)</u>
Total assets less current liabilities		<u>5,822.2</u>	<u>5,064.9</u>
Creditors: amounts falling due after more than one year	15	(3,585.3)	(2,435.2)
Provisions for liabilities and charges	17	<u>(916.6)</u>	<u>(887.5)</u>
Net assets excluding pension asset/(liability)		1,320.3	1,742.2
Net pension asset/(liability)	24	11.1	(51.9)
		<u>1,331.4</u>	<u>1,690.3</u>
Net assets including pension asset/(liability)		<u>1,331.4</u>	<u>1,690.3</u>
Capital and reserves			
Called-up share capital	18	1,029.0	1,029.0
Share premium	19	100.0	100.0
Profit and loss reserve	20	202.4	561.3
		<u>1,331.4</u>	<u>1,690.3</u>
Equity shareholder's funds	21	<u>1,331.4</u>	<u>1,690.3</u>

The Notes on pages 208 to 238 of this Prospectus form part of these financial statements.

The financial statements were approved by the Board of Directors on June 2007 and signed on its behalf by:

SIMON BATEY
CHIEF FINANCIAL OFFICER

Cash flow statement for the period ended 31 March 2007

	Note	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Net cash inflow from operating activities	(a)	863.4	781.2
Returns on investments and servicing of finance			
Interest received		20.9	-
Interest paid		(181.9)	(125.2)
Interest element in finance lease payments		<u>(13.7)</u>	<u>(13.4)</u>
Net cash outflow from returns on investments and servicing of finance		(174.7)	(138.6)
Taxation		(81.4)	(48.8)
Capital expenditure and financial investment			
Gross cost of purchased fixed assets		(719.3)	(488.7)
Infrastructure renewals expenditure		(135.0)	(49.4)
Receipt of grants and contributions		70.2	63.1
Sale proceeds of fixed assets		<u>20.5</u>	<u>9.1</u>
Net cash outflow for capital expenditure and financial investment		(763.6)	(465.9)
Equity dividends paid		(656.3)	(155.0)
Management of liquid resources			
Increase in short term deposits		<u>(112.5)</u>	<u>-</u>
Net cash outflow before financing		(925.1)	(27.1)
Financing			
Capital element in finance lease payments		(9.8)	(8.1)
New loans		1,200.0	737.0
Repayment of loans		<u>(186.0)</u>	<u>(693.0)</u>
Net cash inflow from financing	(b) & (c)	1,004.2	35.9
Increase in cash	(b) & (c)	<u>79.1</u>	<u>8.8</u>

Notes to the cash flow statement for the period ended 31 March 2007

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Note	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Operating profit		528.4	449.6
Assets written off		9.0	-
Depreciation (infrastructure)	4	131.1	86.0
Depreciation (non-infrastructure)	4	273.4	207.6
Difference between pension charge and cash contributions		(1.6)	11.1
Decrease/(Increase) in stocks and work in progress		0.1	(0.3)
Decrease/(increase) in debtors and prepaid expenses		28.2	(46.2)
(Decrease)/Increase in creditors and accrued expenses		(91.7)	84.1
Release of deferred income		(13.5)	(10.7)
Net cash inflow from operating activities		863.4	781.2

(b) Reconciliation of net cash flow to movement in net debt

	Note	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Increase in cash in the period		79.1	8.8
Cash inflow from increase in liquid resources		112.5	-
Cash inflow from movement in net debt and financing		(1,004.2)	(35.9)
Increase in net debt resulting from cashflows		(812.6)	(27.1)
Non-cash increase in net debt		(25.3)	(5.7)
Total increase in net debt		(837.9)	(32.8)
Opening net debt		(2,398.2)	(2,365.4)
Closing net debt	(c)	(3,236.1)	(2,398.2)

Non-cash changes comprise the carrying value uplift by RPI, of an RPI index-linked bond. This adjustment is in accordance with FRS 4 'Capital instruments', which requires the carrying value of such index-linked loans to be recalculated at each balance sheet date.

Notes to the cash flow statement for the period ended 31 March 2007 (continued)

(c) Analysis of net debt

	As at 1 Jan 06 £m	Cashflow £m	Non-cash £m	As at 31 Mar 07 £m
Cash at bank and in hand	10.3	79.1	-	89.4
Short term deposits	<u>-</u>	<u>112.5</u>	<u>-</u>	<u>112.5</u>
	10.3	191.6	-	201.9
Debt due within 1 year	(114.6)	105.2	-	(9.4)
Debt due after 1 year	(2,068.5)	(1,119.2)	(25.3)	(3,213.0)
Finance leases	<u>(225.4)</u>	<u>9.8</u>	<u>-</u>	<u>(215.6)</u>
	<u>(2,408.5)</u>	<u>(1,004.2)</u>	<u>(25.3)</u>	<u>(3,438.0)</u>
	<u>(2,398.2)</u>	<u>(812.6)</u>	<u>(25.3)</u>	<u>(3,236.1)</u>

Notes to the financial statements for the period ended 31 March 2007

1. Principal accounting policies

Basis of preparation

The financial statements are prepared on the going concern basis and in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions, with the Companies Act 1985. An explanation of this departure from the requirements of the Act is given below.

In accordance with the requirements of FRS 18, the directors review the Company's accounting policies to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view.

The Company has not prepared consolidated group financial statements, as permitted under section 228 of the Companies Act 1985. The Company and its subsidiaries are included in the consolidated accounts of its parent company Kemble Water Holdings Limited, a Company registered in the United Kingdom.

The Company's accounting reference date was extended to 31 March 2007 in order to coincide with Kemble Water Limited, its new owner. As a result, this report and the financial statements cover a 15 month period and financial and related information linked to the period may not, therefore, be directly comparable with the figures for the previous financial year ended 31 December 2005.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated.

(a) Revenue Recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for goods and services provided and is recognised in accordance with FRS 5 'Reporting the Substance of Transactions'. Where relevant, this includes an estimate of the sales value of water supplied to customers between the date of the last meter reading and the period end together with unbilled waste water charges, exclusive of value added tax.

The Company recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should the Company consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of delivery are recorded as deferred revenue.

(b) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers and pumped raw water storage reservoirs and sludge pipelines), and other assets (including land, buildings, properties, overground plant and equipment).

Directly attributable costs, including employee costs, incurred in implementing the capital programme of the Company are capitalised within fixed assets.

Infrastructure assets

Infrastructure assets comprise a network of systems. In the UK water regulated business, all expenditure on infrastructure assets is capitalised at cost, whilst the planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as depreciation.

Other assets

All other assets, comprising plant and equipment and land and buildings, are stated at cost less accumulated depreciation.

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Freehold land is not depreciated and assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated by writing off their cost less their estimated residual value evenly over their estimated useful lives, based on management's judgement and experience, which are principally as follows:

Buildings 20 - 80 years

Operational structures 40 - 80 years

Other 20 - 60 years

Fixtures, fittings, vehicles and computers 3 - 10 years

Fixed and mobile plant 20 - 40 years

Depreciation methods, residual values and useful lives are re-assessed annually and, if necessary, changes are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

(c) Impairment of tangible assets excluding goodwill

Fixed assets are assessed for impairment whenever there is an indicator of impairment to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cash flows discounted on a pre-tax basis using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment of non-current assets is recognised in the profit and loss account within operating costs.

Where an impairment loss subsequently reverses, it is recognised in the profit and loss account and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

(d) Capital contributions

Capital contributions received in respect of infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Companies Act 1985 that requires fixed assets to be stated at their purchase price without deduction of contributions, which are accordingly accounted for as deferred income. This departure from the requirement of the Act is, in the opinion of the Directors, necessary for the financial statements to give a true and fair view because infrastructure assets do not have a determinable finite life. Accordingly, related capital contributions would not be recognised in the profit and loss account.

Where material, contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the estimated economic lives of the assets.

(e) **Stocks, work in progress**

Stock and work in progress, with the exception of long-term contracts, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(f) **Long-term contracts**

Long-term contracts are included in the profit and loss account by recording turnover and related costs as contract activity progresses. Profit attributable to turnover to date is included where the outcome of the contract can be foreseen with reasonable certainty. Full provision is made for losses on unprofitable contracts.

Long-term contract work in progress is stated at net cost less foreseeable losses and progress payments received and receivable. The amount by which turnover is in excess of payments on account is separately disclosed within debtors as amounts recoverable on contracts. Progress payments received in excess of costs less foreseeable losses are disclosed in creditors. Where foreseeable losses exceed net costs, the excess is disclosed in provisions for liabilities and charges.

Pre-contract costs are expensed as incurred, except where it is virtually certain that the contract will be awarded, in which case they are recognised as an asset and written off to the profit and loss account over the life of the contract.

(g) **Taxation**

The tax expense represents the sum of current tax and deferred tax.

Current taxation

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit for the period and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Deferred taxation is measured on a non-discounted basis.

Deferred tax is charged or credited in the profit and loss account except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in via Statement of Total Recognised Gains and Losses in Equity.

(h) **Leased assets**

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

Finance leases

Finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability is shown as a finance lease obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

(i) **Pension and other post retirement benefits**

The Company operates two significant defined benefit pension schemes, which are independently administered funds, for the substantial majority of its employees. Actuarial valuations of the schemes are carried out as determined by the pension scheme trustees using the projected unit credit method at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. For any intervening reporting period, the actuaries review the continuing appropriateness of the contribution rates. Defined benefit assets are measured at fair value while liabilities are measured at present value (which approximates to fair value).

The difference between the two amounts is recognised as a surplus or obligation in the balance sheet. The cost of providing pension benefits to employees is included in the profit and loss account within cost of employee benefits. The difference between the expected return on scheme assets and interest on scheme liabilities are included within interest in the profit and loss account.

Actuarial gains and losses are recognised outside the profit and loss account in retained earnings and presented in the statement of total recognised gains and losses.

In addition, the Company also operates defined contribution pension schemes. Payments are charged as employee costs as they fall due. The Company has no further payment obligations once the contributions have been paid.

(j) **Foreign currencies**

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling on the balance sheet date. Gains and losses arising on retranslation are included in the profit and loss account for the period.

(k) **Cash**

Cash includes cash at bank and in hand, deposits, and other short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash at any time without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed.

(l) **Trade receivables**

Trade receivables are stated at nominal value (which approximates to fair value) less allowances for estimated irrecoverable amounts.

(m) **Trade payables**

Trade payables are stated at their nominal value (which approximates to fair value).

(n) **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the profit and loss using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Financial instruments and derivatives

Interest rate swap agreements and financial futures are used to manage interest rate exposure. While the Company enters into currency swaps to manage its exposure to fluctuations in exchange rates, the Company does not use derivative financial instruments for speculative purposes.

The Company currently does not apply FRS 26 'Financial Instruments: Recognition and Measurement', therefore there is no fair valuing of derivatives. FRS 25 'Financial Instruments: Presentation' has been adopted in the current period and prior year.

(o) **Accruals and deferred income**

Grants and contributions receivable in respect of depreciating fixed assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related assets.

(p) **Research and development**

Research expenditure is recognised as an expense as incurred.

(q) **Provisions**

Provisions, except for insurance provisions, are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Insurance provisions are recognised or released by assessing their adequacy using current estimates of future cashflows under insurance contracts.

(r) **Related party disclosures**

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS 8 'Related party disclosures', which requires the disclosure of the details of material transactions between the reporting entity and any related parties, on the grounds that it is a wholly owned subsidiary of Kemble Water Holdings Limited, a company registered in the United Kingdom.

(s) **Post Balance Sheet Events**

In accordance with FRS 21, dividends declared after the period end are not recognised as a liability at the balance sheet date.

(t) **Financial risk management**

The Company has an Executive Management Team, which receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

The Company is exposed to commodity price risk, especially energy price risk, as a result of its operations. The Company aims to manage its risk by fixing contract prices where possible.

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, price risk, liquidity risk, interest rate risk and exchange rate risk.

The operation of the Treasury function is governed by specific policies and procedures that set out specific guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Company.

Derivative financial instruments, including cross currency swaps, interest rate swaps and forward currency contracts are employed to manage the interest rate and currency risk arising from the primary financial instruments used to finance the Company's activities. Matching of assets and liabilities in foreign currencies is also applied wherever practicable. The Company actively maintains a broad portfolio of debt, diversified by source and maturity designed to ensure the Company has sufficient available funds for operations.

2. **Critical accounting policies and key sources of estimation uncertainty**

The preparation of financial statements in conformity with UK GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) **Fixed assets and depreciation**

The estimated useful economic lives of fixed assets are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively.

The carrying values of fixed assets are also reviewed for impairment where there has been a trigger event by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows and residual values is based on the Directors' best estimates of future prices, output and costs and is therefore subjective.

From 1 April 2006, the Company has revised its methodology with regards to the capitalisation of support costs that arise that are directly attributable and incremental to the delivery of the tangible fixed assets of the Company. The change in methodology followed a review of the cost allocation principles

and impact of the previous methodology. This has resulted in the capitalisation of indirect costs amounting to 15.7% (2005: 14.6%) of capital additions, an increase of £24.5m over the amount that would have been capitalised under the previous methodology. The change in methodology is not considered a change in accounting policy and accordingly no prior year restatement is required.

(b) Revenue recognition

The Company recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred revenue.

For regulated utility operations, the Company raises bills and recognises revenue in accordance with its entitlements to receive revenue in line with the limits established by the periodic regulatory price review process. For water and wastewater customers with water meters, the revenue is dependent upon the volumes supplied and includes an estimate of the volume supplied between the date of the last meter reading and the period end. Meters are read on a cyclical basis and the Company recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the reporting period. The estimate of sales value is calculated using a defined methodology based on a measure of unbilled water consumed which is calculated from historical billing information.

(c) Pensions

Within the UK, the Company operates two approved defined benefit schemes. The Company accounts for these schemes in accordance with FRS 17 'Retirement Benefits' with the cost of providing benefits determined using the projected unit credit method, and actuarial valuations being carried out at each reporting date. Inherent in these valuations are key assumptions, including: mortality rates, discount rates, expected returns on plan assets and compensation increases. These actuarial assumptions are reviewed annually and modified as appropriate. The Company believes that the assumptions utilised in recording obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

(d) Accounting for provisions and contingencies

The Company is subject to a number of claims that are incidental to the normal conduct of its business. These relate to and include commercial and contractual claims, which are handled and defended in the ordinary course of business. The Company routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate of the obligation can be made and after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available. Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

(e) Provision for doubtful debts

At each reporting date, the Company evaluates the collectability of trade receivables and records provisions for doubtful receivables based on experience. These provisions are based on, amongst other things, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

(f) Deferred taxation

Full provision is made for deferred taxation, as required under FRS 19 'Deferred Tax', at the rates of tax prevailing at the period end dates unless future rates have been substantively enacted. Deferred tax assets are recognised where it is more likely than not that they will be recovered.

3. **Segmental analysis**

The directors consider that the Company has one class of business and this is conducted wholly within the United Kingdom.

4. Operating costs

Analysis of operating costs by type of expense:

	Note	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Staff costs	6	250.6	177.7
Materials and consumables		39.2	28.4
Other operating charges		652.5	428.9
Assets written off	10	9.0	-
Depreciation:			
- owned asset (infrastructure)	10	131.1	86.0
- owned assets (non-infrastructure)	10	261.3	198.0
- assets held under finance leases (non-infrastructure)	10	12.1	9.6
Rentals under operating leases:			
- hire of plant and machinery		5.6	3.8
- other		8.0	5.6
Research and development		5.9	5.3
		<u>1,375.3</u>	<u>943.3</u>
Own work capitalised		<u>(125.6)</u>	<u>(59.4)</u>
		<u>1,249.7</u>	<u>883.9</u>

Included in the above is auditors' remuneration in respect of the following:

	Period end 31 March 2007 £000	Year end 31 December 2005 £000
Fees payable to the company's auditors for the audit of the company's accounts	205	310
Fees payable to the company's auditors and its associates for other services		
- Other services pursuant to legislation	75	124
- Tax services	354	154
- All other services	151	150
Audit fees in respect of the Thames Water Limited pension scheme	15	22
Total aggregate remuneration	<u>800</u>	<u>760</u>

5. **Profit on sale of fixed assets**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Profit on disposal of fixed assets	<u>12.1</u>	<u>9.1</u>
Taxation attributable, included in the charge for the period	<u>1.4</u>	<u>1.0</u>

6. **Information regarding directors and employees**

Aggregate Directors emoluments:

	Period end 31 March 2007 £'000	Year end 31 December 2005 £'000
Salary	925	952
Bonus	244	123
Other benefits	<u>829</u>	<u>494</u>
Total aggregate emoluments	<u>1,998</u>	<u>1,569</u>

At 31 March 2007 no retirement benefits are accruing to directors (December 2005: 7) under a defined benefit scheme.

Included in the above, is compensation for loss of office £243,995 paid to S Buck and £187,153 paid to J England (December 2005: £460,920 paid to J R Sexton).

Highest paid director

The highest paid director during the period was J England. Full details of the highest paid director can be found in the Remuneration Report on page 40.

Employee information

The average number of persons employed by the Company, including executive directors, during the period was:

	Period end 31 March 2007 Number	Year end 31 December 2005 Number
Average monthly number of employees	<u>5,285</u>	<u>4,748</u>

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Salaries and wages	206.8	145.0
Social security costs	19.0	13.0
Pension costs (note 24)	28.5	22.6
	<hr/>	<hr/>
Total	254.3	180.6
Employment costs included within research and development costs	(3.7)	(2.9)
	<hr/>	<hr/>
Net employment costs	250.6	177.7

7. **Net interest payable and similar charges**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Bank loans, overdrafts and other loans:		
- group loans	(167.5)	(102.9)
- bank loans	(28.7)	(25.1)
- other loans	(10.7)	(7.6)
Finance charges in respect of finance leases	(12.3)	(10.5)
	<hr/>	<hr/>
Interest payable and similar charges	(219.2)	(146.1)
Interest receivable	13.5	3.2
	<hr/>	<hr/>
Net interest payable and similar charges	(205.7)	(142.9)

8. Taxation

(a) Analysis of charge period

	Note	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Current period:			
Amounts payable in respect of corporation tax for the year		75.4	74.6
Adjustments in respect of previous periods		<u>(5.7)</u>	<u>(4.6)</u>
Total current tax	8(b)	<u>69.7</u>	<u>70.0</u>
Deferred tax:			
Origination and reversal of timing differences	17	22.6	23.1
Pension cost charge lower than/(in excess of) pension cost relief		2.7	(1.3)
Adjustments in respect of previous periods	17	<u>6.5</u>	<u>2.5</u>
Total deferred tax		<u>31.8</u>	<u>24.3</u>
Taxation on profit on ordinary activities		<u>101.5</u>	<u>94.3</u>

(b) Factors affecting tax charge for period

The tax charge for the period is lower (2005: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Profit on ordinary activities before tax	<u>342.1</u>	<u>322.7</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (December 2005: 30%)	102.6	96.8
Effects of:		
Income not taxable (intra-group disposals of property)	(3.5)	(1.8)
Capital allowances for period in excess of depreciation	(21.6)	(22.2)
Disallowable expenditure	0.6	0.5
Pension cost charge (lower than)/in excess of pension cost relief	(2.7)	1.3
Adjustments to tax charge in respect of previous periods	<u>(5.7)</u>	<u>(4.6)</u>
Current tax charge for the period	<u>69.7</u>	<u>70.0</u>

The 2007 Finance Bill contains proposals under which the UK Corporation Tax rate will reduce from 30% to 28% with effect from 1 April 2008. It was also announced that balancing adjustments on assets on which Industrial Buildings Allowances (IBA's) are claimed will no longer apply and there will be a phasing out of annual writing down allowances.

At 31 March 2007 the above changes were not substantively enacted. Had these changes been enacted, the deferred tax liability as at 31 March 2007 would have been reduced by £88.5m. The IBA's

available in the period, equivalent to £27.2m per annum, will be phased out on a straight line basis over three years commencing 1 April 2008.

9. Dividends

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
First interim paid: 2.90p (December 2005: 9.27p) per ordinary share	29.8	95.4
Second interim paid: 8.86p (December 2005: 5.79p) per ordinary share	91.2	59.6
Third interim paid: 3.43p (December 2005: Nil) per ordinary share	35.3	-
Fourth interim paid: 48.59p (December 2005: Nil) per ordinary share	<u>500.0</u>	<u>-</u>
	<u>656.3</u>	<u>155.0</u>

10. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infrastructure assets £m	Total £m
Cost				
At 1 January 2006 (as restated)	2,092.0	3,030.2	3,044.3	8,166.5
Additions	114.6	357.4	450.1	922.1
Disposals	(10.7)	(19.3)	-	(30.0)
Assets written off	-	(9.0)	-	(9.0)
At 31 March 2007	<u>2,195.9</u>	<u>3,359.3</u>	<u>3,494.4</u>	<u>9,049.6</u>
Capital contributions				
At 1 January 2006 (as restated)	-	-	461.0	461.0
Additions	-	-	46.5	46.5
At 31 March 2007	<u>-</u>	<u>-</u>	<u>507.5</u>	<u>507.5</u>
Depreciation				
At 1 January 2006	507.3	1,276.8	474.7	2,258.8
Provided during the period	46.0	227.4	131.1	404.5
Disposals	(2.6)	(19.0)	-	(21.6)
At 31 March 2007	<u>550.7</u>	<u>1,485.2</u>	<u>605.8</u>	<u>2,641.7</u>
Net Book Value				
At 31 March 2007	<u>1,645.2</u>	<u>1,874.1</u>	<u>2,381.1</u>	<u>5,900.4</u>
At 31 December 2005	<u>1,584.7</u>	<u>1,753.4</u>	<u>2,108.6</u>	<u>5,446.7</u>

The opening balances of infrastructure assets have been restated as a result of a misclassification in previous years between cost and capital contributions.

The net book value of land and buildings is analysed as follows:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Freehold land and buildings	1,622.3	1,561.1
Leasehold - over 50 years	9.1	9.4
- under 50 years	13.8	14.2
	<u>1,645.2</u>	<u>1,584.7</u>

Depreciation has not been charged on freehold and leasehold land stated in the accounts at cost of £30.0m (2005: £30.1m).

Tangible fixed assets at 31 March 2007 include assets in the course of construction of £926.1m (2005: £718.7m).

Details of the Company's tangible fixed assets, which are held under finance leases are:

	Cost		Net book value	
	Period end 31 March 2007 £m	Year end 31 December 2005 £m	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Plant and equipment	<u>272.5</u>	<u>272.5</u>	<u>164.8</u>	<u>176.9</u>

Thames Gateway Water Treatment Plant

In June 2005 the London Borough of Newham, following a direction from the Mayor of London, formally refused planning permission for the Company's proposed Thames Gateway Water Treatment Plant, employing desalination technology at Beckton in East London. The site is operational land owned by the Company. An appeal was lodged and a public inquiry completed in June 2006. The works carried out to date are a combination of site preparation, for which planning permission is not considered a requirement, a pilot plant constructed on the site to prove the technology, for which planning permission has been granted and some preliminary construction works in readiness for the permanent plant which has been refused planning permission. The works on site were ceased pending the outcome of the public inquiry with the exception of work required to make the site safe and to fulfil contractual obligations. To 31 March 2007 the Company has spent £68.4m, of which £15m is in respect of site preparation and the pilot plant. On 14 June 2007, the Secretary of State for Communities and Local Government and the Secretary of State for Environment, Food and Rural Affairs accepted the decision of the Inspector who held the public inquiry that the appeal should be allowed and that planning permission should be granted, subject to an amended Section 106 Unilateral Undertaking, which will formally refer to the agreement of the parties as to the appointed use of the desalination plant.

Upper Thames Major Resource Development Project

On 14 September 2006 the Company announced the proposed construction of a large reservoir to the South West of Abingdon to ensure security of water supply in the longer term. A period of public consultation is in progress, which will be followed by an application by the Company for a compulsory works order for the construction of the reservoir. To 31 March 2007 the total spent on this project was £26.7m, comprising principally costs of site selection, design and land acquisition in the proposed area. This expenditure has been capitalised on the basis that these costs are directly attributable to the asset

and that, because it is an essential part of longer term security of water supply for southern England, it is anticipated that the project will go forward.

11. **Fixed asset investments**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Cost of shares in subsidiaries	<u>0.1</u>	<u>0.1</u>

At 31 March 2007 the Company held more than 10% of the allotted share capital of the following undertakings:

Name of undertaking	Nominal value and class of shares held	Proportion of nominal value of issued shares held	Activity
Gemwel Limited	£1 Ordinary	50%	Water and sewerage services
Thames Water Drainage Services Limited	£1 Ordinary	100%	Sewerage management
Thames Water Procurement Limited	£1 Ordinary	100%	Procurement
Thames Water Utilities Finance Limited	£1 Ordinary	100%	Finance company
County Wide Collections Limited	£1 Ordinary	100%	Debt collection

All of the above companies were incorporated and are registered in Great Britain.

At 31 March 2007 and 31 December 2005 the net asset values of Thames Water Drainage Services Limited and County Wide Collections Limited were £2 and £1 respectively. No profits or losses have been made in either of the periods concerned.

At 31 March 2007 Thames Water Utilities Finance Limited had net assets of £71,000 (December 2005: £50,000). Profit for the period ended 31 March 2007: £21,000 (December 2005: Nil).

Thames Water Procurement Limited had a deficit on reserves of £Nil at 31 March 2007 (December 2005: £1,523,000). Profit for the period ended 31 March 2007: £1,523,000 (December 2005: £1,000).

Gemwel Limited has a statutory accounting reference date of 31 March. At 31 March 2007 there were net assets of £Nil (March 2006: £Nil). No profits or losses have been made in the current year (March 2006: £10,000 loss).

All of the above investments, with the exception of Thames Water Utilities Finance Limited, were disposed of on 24 May 2007.

12. **Stocks and work in progress**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Raw materials and consumables	<u>6.1</u>	<u>6.2</u>

13. **Debtors: amounts falling due within one year**

	Period end	Year end
	31 March	31 December
	2007	2005
	£m	£m
Trade debtors	182.0	191.4
Amounts owed by group undertakings	10.2	26.2
Other debtors	22.6	34.8
Insurance claims receivable	49.8	36.0
Prepayments and accrued income	180.0	178.0
	<u>444.6</u>	<u>466.4</u>

14. **Creditors: amounts falling due within one year**

	Period end	Year end
	31 March	31 December
	2007	2005
	£m	£m
Bank loans	9.4	14.3
Obligations under finance leases	11.8	9.8
Trade creditors:		
- Operating	167.0	110.0
- Capital	209.2	141.4
Amounts owed to group undertakings	63.5	156.9
Insurance claims payable	49.8	36.0
Amounts payable in respect of corporation tax	-	32.4
Amounts payable in respect of group relief	23.5	2.8
Other taxation and social security payable	4.7	4.8
Accruals and deferred income	192.0	356.4
	<u>730.9</u>	<u>864.8</u>

Amounts owed to group undertakings include interest bearing loans, which are described in more detail in note 15.

15. **Creditors: amounts falling due after more than one year**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Bank loans	335.5	396.7
Obligations under finance leases	203.8	215.6
Amounts owed to group undertakings (see below)	2,877.5	1,671.8
Accruals and deferred income	<u>168.5</u>	<u>151.1</u>
	<u>3,585.3</u>	<u>2,435.2</u>
Amounts owed to group undertakings are:		
	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Inter company loans:		
- Within one year	-	100.3
- After more than one year	<u>2,877.5</u>	<u>1,671.8</u>
	2,877.5	1,772.1
Non-loan amounts due within one year	<u>63.5</u>	<u>56.6</u>
	<u>2,941.0</u>	<u>1,828.7</u>

Loan amounts owed to group undertakings, are comprised of:

- £2,877.5m (December 2005: £1,460.1m) owed to Thames Water Utilities Finance Limited, a subsidiary undertaking, of which £Nil (December 2005: £13.4m) is included within creditors due within one year and £2,877.5m (December 2005: £1,446.7m) within creditors due after more than one year.

The loan from Thames Water Utilities Finance Limited relates to Guaranteed Bonds that it has in issue, the net proceeds of which have been loaned to Thames Water Utilities Limited under the same commercial terms. Thames Water Utilities Limited has guaranteed the principal and interest payments of the subsidiary undertaking due under the terms of the bonds.

Thames Water Limited has guaranteed the principal and interest payments of certain bank loans of the Company. The principal amount guaranteed as at 31 March 2007 was £332.5m (December 2005: £404.2m).

Other loans and finance leases, as disclosed in more detail in note 16, are:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Inter company loans (as above)	2,877.5	1,772.1
Finance leases:		
- Within one year	11.8	9.8
- After more than one year	<u>203.8</u>	<u>215.6</u>
	<u>3,093.1</u>	<u>1,997.5</u>

16. **Financial Instruments**

FRS 25 requires the disclosure of the funding and treasury policy together with further details on financial assets and liabilities.

Funding and treasury policy

The Company's funding policy is to maintain a broad portfolio of debt. The debt arranged via Thames Water Utilities Finance Limited is diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures.

Derivative financial instruments, including cross currency swaps and interest rate swaps, are employed to manage the interest rate and currency risks arising from the primary financial instruments used to finance the Company's activities.

The Company's treasury operations are managed centrally by a small specialist team within the Thames Water Division and are managed as a cost centre, not a profit centre; no material open or speculative positions are taken.

Short-term debtors and creditors have been excluded from the financial instruments disclosures.

Interest rate risk profile of financial liabilities and assets

After taking into account the Company's interest rate and currency swaps, the interest rate risk profile of the Company's financial liabilities and assets is as follows:

Financial Liabilities

	Total at floating rates		Total at fixed rates		Total at book value		Fixed rate liabilities			
							Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2007 £m	2005 £m	2007 £m	2005 £m	2007 £m	2005 £m	2007 %	2005 %	2007 Years	2005 Years
Bank loans & overdrafts										
- £ Sterling	108.9	106.5	236.0	304.5	344.9	411.0	7.5	7.7	4.0	4.3
Other loans & finance leases										
- £ Sterling	215.6	504.6	2,877.5	1,492.9	3,093.1	1,997.5	5.5	5.3	24.5	14.4
Total	324.5	611.1	3,113.5	1,797.4	3,438.0	2,408.5	5.6	5.8	23.0	12.6

The Company's interest rate swaps convert £48.0m (December 2005: £50.4m) of floating rate borrowing to fixed rate and £26.9m (December 2005: £26.9m) of fixed rate borrowing to floating rate. Cross currency swaps hedge currency risk on £81.8m (December 2005: £94.8m) of foreign currency borrowing through conversion to Sterling.

Short term lending bears interest at rates linked to LIBOR.

Financial assets

	Total at floating rates		Total at fixed rates		Total at book value	
	2007 £m	2005 £m	2007 £m	2005 £m	2007 £m	2005 £m
Short term deposits	112.5	-	-	-	112.5	-
Cash at bank and in hand - Sterling	89.4	10.3	-	-	89.4	10.3
Total	201.9	10.3	-	-	201.9	10.3

LIBOR is the benchmark rate for all cash at bank.

Currency risk

The Company is not exposed to any significant currency risk after taking the effects of its cross currency swaps into consideration.

Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The table below sets out a comparison of the book and fair values of the Company's financial instruments.

	Book value Period end 31 March 2007 £m	Book value Year end 31 December 2005 £m	Fair value Period end 31 March 2007 £m	Fair value Year end 31 December 2005 £m
Primary financial instruments				
Financial assets				
- Short term deposits	112.5	-	112.5	-
- Cash at bank and in hand	89.4	10.3	89.4	10.3
Financial liabilities				
- Bank loans	(332.5)	(404.1)	(337.3)	(427.7)
- Other loans & finance leases	(3,093.1)	(1,997.5)	(3,343.7)	(2,317.5)
Derivative financial instruments				
- Interest rate swaps	-	-	(4.6)	(7.8)
- Cross currency swaps	(12.4)	(6.9)	(12.4)	0.3
Total	(3,236.1)	(2,398.2)	(3,496.1)	(2,742.4)

Primary financial instruments include bonds, which are traded on a public market. Fair values for these have been calculated using the 31 March 2007 quoted prices. Mark-to-market techniques (discounting expected cash flows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowing and all derivative financial instruments. Floating rate liabilities have fair values, which approximate to book value.

Book values of primary financial instruments are shown gross of the effect of any hedging instrument. Therefore, the effect of revaluing foreign currency borrowing at closing rates is included in the fair valuation.

Maturities	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Bank loans and overdrafts		
- Within one year	9.4	14.3
- Between one and two years	30.0	59.4
- Between two and five years	305.5	236.8
- After more than five years	-	100.5
	<u>344.9</u>	<u>411.0</u>
Other loans and finance leases		
- Within one year	11.8	110.1
- Between one and two years	29.3	11.8
- Between two and five years	374.0	372.0
- After more than five years	2,678.0	1,503.6
	<u>3,093.1</u>	<u>1,997.5</u>

Loans are repayable between 2007 and 2055.

- Loans wholly repayable after more than five years are:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Bank loans	-	100.5
Other loans	2,558.2	1,356.0
	<u>2,558.2</u>	<u>1,456.5</u>

- Other loans include:
 - £330m 6.75% MTN Eurobond due 2028.
 - £200m 6.50% MTN Eurobond due 2032.
 - £600m 5.13% MTN Eurobond due 2037.
 - £175m 3.38% Index linked bond due 2021.
 - £300m 1.68% Index linked bond due 2053.
 - £300m 1.68% Index linked bond due 2055.
 - £225m 6.59% Guaranteed bond due 2021.
 - £250m 4.75% Guaranteed bond due 2010.
 - £200m 4.90% Guaranteed bond due 2015.
 - £200m 5.05% Guaranteed bond due 2020.

- Loans repayable by instalments after more than five years hence are:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Finance leases	<u>119.9</u>	<u>147.6</u>

- The ranges of interest rates on outstanding bank loans are 1.7% to 8.4% (December 2005: 1.0% to 10.9%) and other loans and finance leases are 1.7% to 6.8% (December 2005: 1.7% to 6.8%).

These interest rates are those contracted on the underlying borrowing before taking account of interest rate protection. There are no interest free loans.

Borrowing facilities

The Company previously relied on committed borrowing facilities from its ultimate parent company RWE AG (December 2005: £150m). These facilities were cancelled when RWE AG disposed of Thames Water Utilities Limited in December 2006. At March 2007 the Company has access to committed facilities of £700m through its parent company Kemble Water Limited.

Thames Water Utilities Finance Limited has a £5 billion (December 2005: US\$ 4 billion) uncommitted Euro-Medium Term Note programme, which provides the Company with access to the capital markets in a range of currencies and maturities. At 31 March 2007, outstanding debt obligations of Thames Water Utilities Finance Limited were £2,877.5m (December 2005: £1,460.1m), with a weighted average term of 24.5 years (December 2005: 15 years) at a weighted averaged rate of 5.49% (December 2005: 5.49%).

17. Provisions for liabilities and charges

Provisions for liabilities and charges consist entirely of a provision for deferred taxation. There are no amounts of deferred tax unprovided for (December 2005: £nil).

The movement in the provision was as follows:

	Note	£m
Provision brought forward at 1 January 2006		887.5
Deferred tax charge:		
- Current period	8(a)	22.6
- Prior period	8(a)	<u>6.5</u>
Provision carried forward at 31 March 2007		<u>916.6</u>

An analysis of amounts provided at current tax rates is as follows:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Accelerated capital allowances	922.6	892.3
Other timing differences	(6.0)	(4.8)
	<u>916.6</u>	<u>887.5</u>
Total deferred tax provision:		
Included above	916.6	887.5
Deferred tax liability/(asset) provided on pension surplus/liability	4.8	(22.3)
	<u>921.4</u>	<u>865.2</u>

The pension asset/liability per note 24 is shown net of deferred tax.

18. **Share capital**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Authorised		
1,029,050,000 (2005: 1,029,050,000) ordinary shares of £1 each	<u>1,029.0</u>	<u>1,029.0</u>
Allotted, called up and fully paid		
1,029,050,000 (2005: 1,029,050,000) ordinary shares of £1 each	<u>1,029.0</u>	<u>1,029.0</u>

19. **Share premium reserve**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
At 1 January and 31 March/ 31 December	<u>100.0</u>	<u>100.0</u>

Premium of 25p on issue of 400 million £1 ordinary shares.

20. **Profit and loss reserve**

	Note	Period end 31 March 2007 £m	Year end 31 December 2005 £m
At 1 January as previously reported		561.3	442.3
Restatement - FRS 17	24	-	(74.2)
Restatement - FRS 21		<u>-</u>	<u>95.4</u>
At 1 January - Restated		561.3	463.5
Profit for the period/year		240.6	228.4
Dividends	9	<u>(656.3)</u>	<u>(155.0)</u>
(Deficit)/retained profit		(415.7)	73.4
Actuarial gain on pension scheme	24	81.2	34.9
Movement on deferred tax relating to pension scheme		<u>(24.4)</u>	<u>(10.5)</u>
As at 31 March/31 December including total pension asset/liability		<u>202.4</u>	<u>561.3</u>
Total pension (asset)/liability	24	(11.1)	51.9
As at 31 March/31December excluding pension (asset)/liability		<u>191.3</u>	<u>613.2</u>

21. **Reconciliation of movements in shareholder's funds**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Profit for the financial period/year	240.6	228.4
Dividends	<u>(656.3)</u>	<u>(155.0)</u>
Net movement in shareholder's funds	(415.7)	73.4
Shareholder's funds at the beginning of the period/year as previously reported	1,690.3	1,571.3
Restatement - FRS 17	-	(74.2)
Restatement - FRS 21	<u>-</u>	<u>95.4</u>
Shareholder's funds at the beginning of the period/year as restated	<u>1,690.3</u>	<u>1,592.5</u>
Actuarial gain on pension scheme (note 24)	81.2	34.9
Movement on deferred tax relating to pension scheme	<u>(24.4)</u>	<u>(10.5)</u>
Shareholder's funds at the end of the period/year including pension (asset)/liability	<u>1,331.4</u>	<u>1,690.3</u>

22. **Capital commitments and contingencies**

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Contracted for but not provided	<u>372.0</u>	<u>155.9</u>

In addition to these commitments, the Company has long-term capital investment plans to provide for future growth.

Guaranteed Standards Scheme and Non-Financial data integrity

(a) **Guaranteed Standards Scheme**

In January 2006 Thames Water informed Ofwat that it had discovered that it had been:

- failing to achieve required performance standards in customer services set out in the GSS; and
- failing to make the payments due to customers as required under the GSS.

Under the terms of a notice issued by Ofwat (PN 21/06) on 19 July 2006, the company was advised that Ofwat proposed to impose a financial penalty for our failure to achieve customer service performance standards under the Guaranteed Standards Scheme (GSS).

Ofwat is required to issue notice within 12 months of the failure to achieve customer service standards and the notice applies only to those performance standard failures that have occurred since July 2005.

As a result Ofwat and Thames Water jointly appointed Ernst & Young LLP to carry out an independent investigation into these irregularities. Ofwat also asked Ernst & Young to examine whether there had

been any mis-reporting of Thames Water's customer service performance to the regulator. Ernst & Young have concluded their investigation and have submitted their final reports to Ofwat.

(b) Non-Financial data integrity

On 7 June 2006, Ofwat issued notice under s.203(2) of the Water Industry Act 1991 stating that it considered that the company may have contravened conditions J and/or M of its appointment in providing information in its June Return which may not be reliable, accurate or complete. This notice would allow Ofwat to take steps to impose penalties on the company in respect of information contained in the June Return 2005 if it is satisfied that there has been any breach.

The company has been required to produce further information, as requested by Ofwat, which it has done in accordance with a mutually agreed timetable.

Any financial penalty which may be imposed in respect of each failure or breach may not exceed 10% of the Company's turnover as set out in Water Industry (Determination of Turnover for Penalties) Order 2005 No. 477. Thames Water's regulated turnover for 2005-06 was £1.4 billion.

The directors believe that to disclose the amount set aside for any penalty would be commercially prejudicial and have applied the exemption in FRS 12 not to disclose.

Mogden Sewage Treatment Works

A number of residents living close to the Mogden Sewage Treatment Works have filed a claim against the company under Articles 1 & 8 of the First Protocol of the European Convention on Human Rights in respect of odour and mosquitoes caused by the works. A private action is being pursued by 1326 claimants, 775 Group A claimants (those with property interests) and 551 Group B claimants (those without property interests). The company does not have details of individual claim values and is being advised by Counsel and external legal advisors on the conduct of the defence of the claims. The Company has made an accrual in the financial statements for these matters.

British Waterways Board

The Company is also in discussions with the British Waterways Board in relation to payment for abstraction costs from the River Lee. There is a large differential between the company's interpretation of the costs to be charged under the River Lee Act and that of the British Waterways Board. The expectation is that the Secretary of State (DEFRA) will appoint an Inspector to hold an inquiry and resolve the issue in due course.

The Company has set aside amounts considered by the directors to be an adequate reserve for all legal and similar claims.

23. **Operating leases**

At 31 March 2007 the Company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	Period end 31 March 2007		Year end 31 December 2005	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	0.2	1.0	0.2	0.3
Between one and two years	-	0.7	-	0.6
Between two and five years	0.9	0.4	0.8	0.2
After more than five years	4.6	-	4.3	-
	<u>5.7</u>	<u>2.1</u>	<u>5.3</u>	<u>1.1</u>

24. Pension schemes

Pension arrangements for the majority of the Company's employees are of the defined benefit type, funded through pension schemes covering employees within the Thames Water Group, whose assets are held separately from those of the Group in independently administered funds. In addition, there are unfunded defined benefits provided for directors and senior employees affected by the cap on earnings, which cannot be provided through approved arrangements.

The Company's pension arrangements are of the group multi-employer scheme nature, such that the Company's pension schemes' assets and liabilities are included with those of other companies in the Thames Water Group. The Company contributes the vast majority of the contributions into the schemes and any consequence of there being a surplus or a deficit in the schemes is felt by the Company. Accordingly, the Directors have decided it is appropriate to recognise the total surplus and deficit of the two Group pension schemes within these financial statements.

The service cost of the Company, as included with these financial statements, represents the net of the total service cost of the Group schemes and the pension contributions made by the other group companies into the schemes in the financial period.

In addition to the ongoing cost of the UK Pension arrangements, the Company operates discretionary arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional employer contributions to the schemes. In the period ended 31 March 2007 payments amounted to £7.8m (December 2005: £1.8m).

The latest full actuarial valuation was undertaken as at December 2004. This valuation has been updated at 31 March 2007 by Hewitt, Bacon and Woodrow using revised assumptions that are consistent with the requirements of FRS 17 and shown in the table below.

The next full actuarial valuation as at 31 December 2007 will be undertaken by Hewitt, Bacon and Woodrow (the independent and professionally qualified consulting actuaries to the schemes) during 2008.

Thames Water Group has taken advice from Hewitt, Bacon and Woodrow in respect of the funding position of the Group pension schemes. With consideration of the funding position of the schemes, the Company contribution rate has been increased where necessary in accordance with Hewitt, Bacon and Woodrow recommendations.

The main financial assumptions used for FRS 17 purposes are as follows:

	31 March 2007	31 December 2005	31 December 2004
Price inflation	3.2%	2.9%	2.9%
Salary increases	4.2%	3.9%	3.9%
Pension increases	3.2%	2.9%	3.0%
Discount rate	5.4%	4.8%	5.3%

The fair value of the assets held by the pension schemes, the long-term expected rate of return on each class of assets and the value of the schemes' liabilities assessed on the assumptions described above are shown in the following table:

	31 March 2007		31 December 2005		31 December 2004	
	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m
Equities	8.8%	577.8	8.0%	525.7	8.0%	445.0
Bonds	5.3%	66.0	4.5%	63.8	4.5 – 5.0%	477.0
Gilts	4.5-4.8%	472.4	3.8 - 4.0%	445.1	-	-
Property	7.8%	95.0	8.0%	118.0	8.0%	87.0
Other assets	5.5%	35.2	4.5%	2.3	4.0%	-
Total market value of assets		1,246.4		1,154.9		1,009.0
Present value of schemes' liabilities		(1,205.9)		(1,229.1)		(1,113.9)
Irrecoverable surplus		(24.6)		-		-
Surplus/(deficit) in the schemes		15.9		(74.2)		(104.9)
Related deferred tax (liability)/asset		(4.8)		22.3		31.5
Net pension surplus/(deficit)		11.1		(51.9)		(73.4)

This can be analysed as follows:

	31 March 2007 £m	31 December 2005 £m
Thames Water Mirror Image Pension Scheme	37.3	36.8
Thames Water Pension Scheme	(26.2)	(88.7)
	11.1	(51.9)

Analysis of amount charged to operating profit:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Current service cost	33.5	22.6
Past service cost	(5.0)	-
Total operating charge included in operating profit	28.5	22.6

Analysis of amount credited to other finance income:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Expected return on pension scheme assets	87.5	65.4
Impact of restriction on expected return on assets due to irrecoverable surplus	(7.3)	-
Interest on pension scheme liabilities	(72.9)	(58.5)
Net finance income	7.3	6.9

Analysis of amount recognised in statement of recognised gains and losses:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Actual return less expected return on pension scheme assets	7.1	98.4
Experience gains and losses arising on the scheme liabilities	11.9	24.7
Changes in assumptions underlying the present value of scheme liabilities	79.5	(88.2)
Adjustments relating to irrecoverable surplus	<u>(17.3)</u>	<u>-</u>
Actuarial gain recognised in STRGL	<u>81.2</u>	<u>34.9</u>

The movement in the surplus/(deficit) during the period to 31 March 2007 was as follows:

	Period end 31 March 2007 £m	Year end 31 December 2005 £m
Deficit in scheme at start of period	(74.2)	(104.9)
Operating charge	(28.5)	(22.6)
Employer contributions	30.1	11.5
Other finance income	7.3	6.9
Actuarial gain	<u>81.2</u>	<u>34.9</u>
Surplus/(deficit) in scheme at end of period	<u>15.9</u>	<u>(74.2)</u>

The details of experience gains and losses for the period to 31 March 2007 are as follows:

	Period end 31 March 2007 £m	Year end 31 December		
		2005 £m	2004 £m	2003 £m
Difference between the expected gains and losses on scheme assets:				
Amount	7.1	98.4	37.0	96.9
Percentage of scheme assets	<u>0.6%</u>	<u>8.5%</u>	<u>3.7%</u>	<u>10.6%</u>
Experience gains and losses on scheme liabilities:				
Amount	11.9	24.7	(39.1)	4.6
Percentage of the present value of the scheme liabilities	<u>1.0%</u>	<u>2.0%</u>	<u>3.5%</u>	<u>0.5%</u>
Total amount recognised in statement of total recognised gains and losses:				
Amount	81.2	34.9	(80.2)	28.5
Percentage of the present value of the schemes' liabilities	<u>6.7%</u>	<u>2.8%</u>	<u>7.2%</u>	<u>3.0%</u>

25. Intermediate and ultimate parent company and controlling party

The directors' consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements.

Kemble Water Investments Limited, a company incorporated in the United Kingdom is the intermediate parent company and the smallest group to consolidate these financial statements.

Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

APPENDIX D
ACCOUNTANTS' REPORT ON TWH



PricewaterhouseCoopers LLP
9 Greyfriars Road
Reading RG1 1JG

The Directors
Thames Water Utilities Holdings Limited
Clearwater Court
Vastern Road
Reading
RG1 8DB

24 August 2007

Dear Sirs

Thames Water Utilities Holdings Limited

Introduction

We report on the special purpose historical financial information of Thames Water Utilities Holdings Limited (the "**Company**") set out below. This special purpose historical financial information has been prepared for inclusion in the prospectus dated 24 August 2007 (the "**Document**") of Thames Water Utilities Cayman Finance Limited on the basis of the accounting policies set out in note 2. This report is required by item 8.2 bis of Annex VII to the Prospectus Rules and is given for the purposes of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the special purpose historical financial information in accordance with UK GAAP.

It is our responsibility to form an opinion as to whether the special purpose historical financial information gives a true and fair view, for the purposes of the document and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 9.1 of Annex VII to the Prospectus Rules, consenting to its inclusion in the Document.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the special purpose historical financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the special purpose historical financial information and whether the accounting policies are appropriate to the Company's circumstances consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the special purpose historical financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the special purpose historical financial information gives, for the purposes of the Document, a true and fair view of the state of affairs of the Company as at the date stated and of its cash flows for the periods then ended in accordance with UK GAAP.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Document in compliance with item 1.2 of Annex VII to the Prospectus Rules.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Thames Water Utilities Holdings Limited Balance sheet at 30 March 2007

	Note	At 30 March 2007 £
Assets		
Current assets		
Cash and cash equivalents		2
Total and net assets		<u>2</u>
Shareholders equity		
Issued capital		2
Total shareholders equity		<u>2</u>

Thames Water Utilities Holdings Limited Statement of Cash Flows

On incorporation, the Company issued two Ordinary Shares for a cash consideration of £2.

Notes to the Financial Information

1. General

The Company was incorporated and registered in England and Wales on 30 March 2007 under the Companies Act as a private company limited by shares with the name Hackremco (No. 2476) Limited and with registered number 6195202. The Company changed its name to Thames Water Utilities Holdings Limited pursuant to a special resolution passed on 20 June 2007. The registered office of the company is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

2. Basis of preparation and accounting policies

The special purpose historical financial information has been prepared in accordance with accounting standards issued in the United Kingdom ("UK GAAP") as modified having regard to certain conventions for the preparation of historical financial information for inclusion in Investment Circulars compiled in the Annexure to SIR 2000 "Investment reporting standards applicable to public reporting engagements on historical financial information" Issued by the Auditing Practices Board.

Cash and cash equivalents

Cash equivalents includes cash at bank and in hand, deposits, and other short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash within three months and which are subject to an insignificant risk of change in value.

Profit and loss account

The Company has not traded since its incorporation on 30 March 2007 and accordingly no profit and loss account has been presented.

3. Share capital

	30 March 2007 £
Authorised	
Ordinary shares of £1 each	100
Ordinary shares issued and fully paid	
Ordinary shares of £1 each	<u>2</u>

The Company was incorporated on 30 March 2007 with an authorised share capital of £100 divided into 100 ordinary shares of £1 each.

4. **Events after the balance sheet date**

On 21 June 2007 the Company purchased the entire ordinary share capital of Thames Water Utilities Limited for £4,250,000,000. The consideration was left outstanding on the intercompany account.

APPENDIX E
ACCOUNTANTS' REPORT ON THE ISSUER



PricewaterhouseCoopers LLP
9 Greyfriars Road
Reading RG1 1JG

The Directors
Thames Water Utilities Cayman Finance Limited
C/o M&C Corporate Services Limited
P.O. Box 309 GT, Uglan House
South Church Street
George Town
Grand Cayman
Cayman Islands

24 August 2007

Dear Sirs

Thames Water Utilities Cayman Finance Limited

Introduction

We report on the special purpose historical financial information set out below. This special purpose historical financial information has been prepared for inclusion in the prospectus dated 24 August 2007 (the "**Document**") of Thames Water Utilities Cayman Finance Limited (the "**Company**") on the basis of the accounting policies set out in note 2. This report is required by item 8.2 bis of Annex VII to the Prospectus Rules and is given for the purposes of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the special purpose historical financial information in accordance with UK GAAP.

It is our responsibility to form an opinion as to whether the special purpose historical financial information gives a true and fair view, for the purposes of the document and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 9.1 of Annex VII to the Prospectus Rules, consenting to its inclusion in the Document.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the special purpose historical financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the

special purpose historical financial information and whether the accounting policies are appropriate to the Company's circumstances consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the special purpose historical financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the special purpose historical financial information gives, for the purposes of the Document, a true and fair view of the state of affairs of the Company as at the date stated and of its cash flows for the periods then ended in accordance with UK GAAP.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the Document in compliance with item 1.2 of Annex VII to the Prospectus Rules.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

**Thames Water Utilities Cayman Finance Limited Balance Sheet
at 18 May 2007**

	Note	At 18 May 2007 US\$
Assets		
Current assets		
Cash and cash equivalents		1
Total and net assets		1
Shareholders equity		
Issued capital		1
Total shareholders equity		1

Thames Water Utilities Holdings Limited Statement of Cash Flows

On incorporation, the Company issued one Ordinary Share for a cash consideration of US\$1.

Notes to the Financial Information

1. **General**

The Company was incorporated and registered in the Cayman Islands on 18 May 2007 as an exempted company with limited liability with the name Thames Water Utilities Cayman Finance Limited and with registered number MC-187772. The registered office of the company is c/o M&C Corporate Services Limited, PO Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands.

2. **Basis of preparation and accounting policies**

The special purpose historical financial information has been prepared in accordance with accounting standards issued in the United Kingdom ("**UK GAAP**") as modified having regard to certain conventions for the preparation of historical financial information for inclusion in Investment Circulars compiled in the Annexure to SIR 2000 "*Investment reporting standards applicable to public reporting engagements on historical financial information*" Issued by the Auditing Practices Board.

Cash and cash equivalents

Cash equivalents includes cash at bank and in hand, deposits, and other short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash within three months and which are subject to an insignificant risk of change in value.

Profit and loss account

The Company has not traded since its incorporation on 18 May 2007 and accordingly no profit and loss account has been presented.

3. **Share capital**

	At 18 May 2007 US\$
Authorised	
Ordinary shares of US\$1 each	50,000
Ordinary shares issued and fully paid	50,000

Ordinary shares of US\$1 each

1

GLOSSARY OF DEFINED TERMS

The following terms are used throughout this Prospectus:

"**Acceleration of Liabilities**" or "**Acceleration**" means an acceleration of any Secured Liabilities or termination of a commitment (or equivalent action) including:

- (a) the delivery of a termination notice from a Finance Lessor or TWUL terminating the leasing of Equipment under a Finance Lease;
- (b) the delivery of a notice by TWUL or a Finance Lessor requesting the prepayment of any Rentals under a Finance Lease;
- (c) the early termination of any hedging obligations (whether by reason of an event of default, termination event or other right of early termination) under a Hedging Agreement; or
- (d) the taking of any other steps to recover any payment due in respect of any Secured Liabilities, which have matured for repayment and are overdue, by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents and in accordance with the STID.

"**acceleration**" and "**accelerate**" will be construed accordingly.

"**Accession Memorandum**" means (a) with respect to the STID, each memorandum to be entered into pursuant to Clause 2 (*Accession*) or Clause 19 (*Benefit of Deed*) (as applicable) of the STID; (b), with respect to the Bond Trust Deed, a memorandum in substantially the form set out in Schedule 5 or Schedule 6 to the Bond Trust Deed pursuant to which a Financial Guarantor or, as the case may be, a Guarantor accedes to the Bond Trust Deed; and (c) with respect to the Agency Agreement, a memorandum in substantially the form set out in Schedule 3 to the Agency Agreement pursuant to which a Guarantor accedes to the Agency Agreement.

"**Account Bank**" means National Westminster Bank plc or any successor account bank appointed pursuant to the Account Bank Agreement.

"**Account Bank Agreement**" means the account bank agreement dated on or about the Initial Issue Date between, among others, the Obligors, the Standstill Cash Manager, the Account Bank and the Security Trustee.

"**Addendum**" means any of the First RBSSAF Existing Finance Lease Addendum, the Second RBSSAF Existing Finance Lease Addendum and the RBS Existing Finance Lease Addendum.

"**Additional Secured Creditor**" means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the accession provisions of the STID.

"**Adjusted Lease Reserve Amount**" means, in respect of any Finance Lease and from the commencement of a Standstill in any Test Period commencing on 1 April in any year, the relevant portion of the Annual Finance Charge for such Test Period or, as the case may be, the Pre-Test Period relating to such Finance Lease as calculated pursuant to Paragraph 6.12 of Schedule 11 (*Cash Management*) of the CTA or, where the Lease Calculation Cashflow applies, as calculated pursuant to the Lease Calculation Cashflow.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where "**Affiliate**" has the meaning given to it in that Hedging Agreement).

"**Agency Agreement**" means the agreement dated on or about the Initial Issue Date between the Issuer, TWUL and the Agents referred to therein under which, among other things, the Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme.

"**Agent**" means the Agent Bank, the Principal Paying Agent, the Registrar, the Transfer Agent and any Paying Agent or any other agent appointed by the Issuer pursuant to the Agency Agreement.

"**Agent Bank**" means Deutsche Bank AG, London Branch (or any successor thereto) in its capacity as agent bank under the Agency Agreement in respect of the Bonds.

"**AMP**" means an asset management plan submitted by TWUL to the economic regulator in respect of a five-year period.

"**AMP Period**" means a five year period in relation to which an asset management plan is submitted by TWUL to the economic regulator and in this respect "**AMP2 Period**" means the AMP Period commencing on 1 April 1995; "**AMP3 Period**" means the AMP Period commencing on 1 April 2000; "**AMP4 Period**" means the AMP Period commencing on 1 April 2005; and "**AMP5 Period**" means the AMP Period commencing on 1 April 2010.

"**AMP2**" means the asset management plan prepared for the AMP2 Period.

"**AMP3**" means the asset management plan prepared for the AMP3 Period.

"**AMP4**" means the asset management plan prepared for the AMP4 Period.

"**AMP5**" means the asset management plan prepared for the AMP5 Period.

"**Ancillary Documents**" means the valuations, reports, legal opinions, tax opinions, accountants' reports and the like addressed to or given for the benefit of the Security Trustee, any Obligor or any Secured Creditor in respect of the Security Assets.

"**Annual Finance Charge**" means, in respect of the Pre-Test Period and thereafter in respect of each 12 month period commencing 1 April in any subsequent 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 Pre-Test Period or 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 Pre-Test Period or 12 month period, all fees and commissions payable to each Finance Party within that Pre-Test Period or 12 month period and the Lease Reserve Amounts or, during a Standstill Period, the Adjusted Lease Reserve Amounts falling due in that Pre-Test Period or 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 Pre-Test Period or Test Period and all other costs incurred in connection with the raising of such debt less all interest received or, in respect of forward-looking ratios, receivable by any member of the TWU Financing Group from a third party during such period (except any interest received or receivable under the Intra-Group Loans).

"**Applicable Accounting Principles**" means accounting principles, standards and practices generally accepted in the United Kingdom as applied from time to time and making such adjustments (if any) as the Auditors may consider appropriate arising out of changes to applicable accounting principles or otherwise from time to time.

"**Appointed Business**" or "**Regulated Business**" means the appointed business of a "relevant undertaker" (as that term is defined by Section 219 of the WIA).

"**Associate**" means:

- (a) any person who has a Controlling interest in any member of the TWU Financing Group; or
- (b) any person who is Controlled by a member of the TWU Financing Group,
- (c) and in each case, any Affiliate of such person.

"**Auditors**" means 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, TWUF or TWUL for Class A Debt or Class B Debt as permitted by the terms of the CTA or for the issue of Financial Guarantees in relation thereto, the providers of which have acceded to the STID and the CTA, and includes (without limitation) the Initial Credit Facility Agreement, the Liquidity Facilities, the Existing Finance Leases, the Existing Authorised Credit Finance Contracts, the Initial Issuer/TWUL Loan Agreement, the Initial TWUF/TWUL Loan Agreement, the Bond Trust Deed, the Secured TWUF Bond Trust Deeds, the Bonds, the Secured TWUF Bonds, the Existing Hedging Agreements, the Financial Guarantee Fee Letters, the G&R Deeds and any other document entered into in connection with the foregoing facilities or agreements or the transactions contemplated in the foregoing facilities or agreements.

"**Authorised Credit Provider**" means a lender or other provider of credit or financial accommodation under any Authorised Credit Facility and includes each Financial Guarantor for so long as any Financial Guarantee issued by that Financial Guarantor is outstanding, each Bondholder and each Secured TWUF Bondholder.

"**Authorised Investments**" means:

- (a) securities issued by the government of the United Kingdom;
- (b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, provided that the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short-Term Rating;
- (c) any other obligations provided that in each case the relevant investment has the Minimum Short-Term Rating and is either denominated in pounds sterling or (following the date on which the UK becomes a Participating Member State) euro or has been hedged in accordance with the Hedging Policy; or
- (d) any money market funds or equivalent investments which have a rating of at least A- by S&P and A3 by Moody's.

"**Authorised Signatory**" means any person who is duly authorised by any Obligor or any Party and in respect of whom a certificate has been provided signed by a director of that Obligor or such Party setting out the name and signature of that person and confirming such person's authority to act.

"**Authority**" means the Water Services Regulation Authority, which has replaced the DGWS pursuant to the Water Act.

"**Base Cash Flows**" means the annual cash flows of the amount of costs netted off against the amount of receipts and savings in respect of each Relevant Change of Circumstance (as defined in the Licence), Notified Item and relevant disposal of land.

"**Base Currency**" means pounds sterling.

"**Bearer Bonds**" means those of the Bonds which are in bearer form.

"**Bond Trust Deeds**" means the bond trust deed dated on or about the Initial Issue Date between, among others, the Issuer and the Bond Trustee, under which Bonds will, on issue, be constituted and any bond trust deed supplemental thereto.

"**Bond Trustee**" means Deutsche Trustee Company Limited or any successor trustee appointed pursuant to the Bond Trust Deed for and on behalf of the relevant Bondholders.

"**Bondholders**" means the holders from time to time of the Bonds.

"**Bonds**" means the Class A Bonds and/or the Class B Bonds, as the context may require, and "**Bond**" shall be construed accordingly.

"**Bridge Facility Agreement**" means the £2,060,000,000 senior bridge facility agreement dated 13 October 2006, as amended from time to time, between, among others, Kemble Water Limited and Barclays Bank PLC, Dresdner Bank AG London Branch, HSBC Bank plc and Royal Bank of Canada Europe Limited as arrangers.

"**Bridge Facility**" means the facility made available to Kemble Water Limited pursuant to the Bridge Facility Agreement.

"**Business**" means Appointed Business and Permitted Non-Appointed Business or otherwise as permitted under the Finance Documents.

"**Business Day**" means (other than in any Hedging Agreement where "**Business Day**" has the meaning given to it in that Hedging Agreement):

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms;
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the currency in which such financial indebtedness is denominated (which in the case of a payment in 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 of the Agency Agreement.

"**Calculation Agent**" means, in relation to any Tranche of Bonds, the person appointed as calculation agent in relation to such Tranche of Bonds by the Issuer pursuant to the provisions of a Calculation Agency Agreement (or any other agreement) and shall include any successor calculation agent appointed in respect of such Tranche of Bonds.

"**Calculation Date**" means (other than in any Hedging Agreement where "**Calculation Date**" has the meaning given to it in that Hedging Agreement), 31 March and 30 September in each year starting on 30 September 2007 or any other calculation date agreed as a result of a change in the financial year end date of any Obligor.

"**Capex Contract**" means any agreement pursuant to which TWUL outsources goods and services which are Capital Expenditure.

"**Capital Expenditure**" means Capital Maintenance Expenditure and any expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the TWUL Business Financial Model) relating to the acquisition of equipment, fixed assets, real property, intangible assets and other assets of a capital nature, or for the replacement or substitutions therefor or additions or improvements thereto, that in any such case have a useful life of more than one year together with costs incurred in connection therewith and provided that such expenditure is incurred in respect of maintenance and non-infrastructure, infrastructure renewals expenditure or quality and supply-demand and other service enhancement expenditure.

"**Capital Maintenance Expenditure**" means expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the TWUL Business Financial Model) on maintaining base service levels in the Appointed Business but excluding any expenditure relating to increases in capacity or enhancement of service levels, quality or security of supply.

"**Cash Expenses**" means the aggregate of all expenses including Capital Expenditure incurred by TWUL in any period (excluding depreciation, IRC and interest on Financial Indebtedness).

"**Cash Manager**" means the Standstill Cash Manager during a Standstill Period, and at all other times TWUL.

"**CAT**" means the Competition Appeal Tribunal of the United Kingdom.

"**CCD**" means expenditure designated under the heading "*current cost depreciation*" in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to TWUL in Ofwat's most recent Final Determination adjusted as appropriate for any subsequent IDOK and for Out-turn Inflation provided that for the purposes of calculating any financial ratio for any Test Period where there is no Final Determination, the "CCD" shall be TWUL's good faith estimate of such expenditure for such Test Period.

"**CCW**" means the Consumer Council for Water.

"**Class**" means each class of Bonds, the available classes of Bonds being Class A Wrapped Bonds, Class A Unwrapped Bonds, Class B Wrapped Bonds and Class B Unwrapped Bonds.

"**Class A Adjusted ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest during such Test Period.

"**Class A Average Adjusted ICR**" means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

"**Class A Bonds**" means the Class A Wrapped Bonds and the Class A Unwrapped Bonds.

"**Class A Debt**" means any financial accommodation that is for the purposes of the STID to be treated as Class A Debt and includes:

- (a) as at the Initial Issue Date all debt outstanding under:
 - (i) the Class A Unwrapped Bonds (including any Class A FG Covered Bonds) issued by the Issuer on the Initial Issue Date;
 - (ii) the Secured TWUF Bonds (including any Secured TWUF FG Covered Bonds) issued by TWUF;
 - (iii) the Initial Credit Facility;
 - (iv) the Existing Authorised Credit Facilities;
 - (v) the Existing Finance Leases;
 - (vi) the Existing Hedging Agreements;
 - (vii) the DSR Liquidity Facilities; and
 - (viii) the O&M Reserve Facility;
- (b) following the Initial Issue Date all debt outstanding under paragraph (a) above and:
 - (i) any Legacy Bonds or JPY Bonds which become Secured TWUF Bonds following the Initial Issue Date;
 - (ii) any Class A Wrapped Bonds issued by the Issuer following the Initial Issue Date;
 - (iii) any Financial Guarantee Fee Letter; and

(iv) any G&R Deed in respect of Class A Wrapped Bonds.

"Class A Debt Instructing Group" or **"Class A DIG"** means a group of representatives (each a **"Class A DIG Representative"**) of Qualifying Class A Debt, comprising:

- (a) in respect of each Sub-Class of Class A Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), the Financial Guarantor of such Sub-Class of Class A Wrapped Bonds;
- (b) in respect of each Sub-Class of Class A Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds) and each Sub-Class of Class A Unwrapped Bonds (excluding any Class A FG Covered Bonds (unless a Default Situation is subsisting)), the Bond Trustee;
- (c) in respect of the Secured TWUF Bonds (excluding any Secured TWUF FG Covered Bonds (unless a Default Situation is subsisting)), the relevant TWUF Bond Trustee;
- (d) in respect of each Class A FG Covered Bond and each Secured TWUF FG Covered Bond, the Secondary Market Guarantor in respect of such Class A FG Covered Bond or, as the case may be, Secured TWUF FG Covered Bond (unless a Default Situation is subsisting);
- (e) in respect of the Initial Credit Facility, the Initial Credit Facility Agent;
- (f) in respect of the Existing Authorised Credit Facilities, the Existing Authorised Credit Provider;
- (g) in respect of any Existing Finance Leases, the relevant Finance Lessor; and
- (h) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (g) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum as the Class A DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

"Class A Debt Interest" means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

- (a) all interest and recurring fees or commissions paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or TWUF's and/or TWUL's obligations under or in connection with all Class A Debt and any Permitted Financial Indebtedness which is unsecured (including all Unsecured TWUF Bond Debt);
- (b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Class A Wrapped Bonds; and
- (c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or TWUF's and/or TWUL's obligations under and in connection with all Class A Debt,

in each case during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force) (excluding all indexation of principal, amortisation of the costs of issue of any Class A Debt or Unsecured TWUF Bond Debt within such Test Period and all other costs incurred in connection with the raising of such Class A Debt or Unsecured TWUF Bond Debt) less all interest received or in respect of forward-looking ratios receivable by any member of the TWU Financing Group from a third party during such period (excluding any interest received or receivable by TWUL under any Intra-Group Loan).

"**Class A Debt Service Reserve Account**" means the accounts of each of the Issuer and TWUF titled "Class A Debt Service Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

"**Class A Debt Provider**" means a provider of, or Financial Guarantor of, Class A Debt.

"**Class A FG Covered Bond**" means any Class A Unwrapped Bond in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (provided that such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor).

"**Class A ICR**" means the ratio of Net Cash Flow for each Test Period to Class A Debt Interest for each of the same Test Periods.

"**Class A Net Indebtedness**" means, as at any date, all the Issuer's, TWUF's and TWUL's nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) under and in connection with any Class A Debt on such date (including accretions by indexation to the notional amount under any RPI Linked Hedging Agreement and excluding any un-crystallised mark to market amount relating to any Hedging Agreement) and the nominal amount of any Financial Indebtedness pursuant to paragraphs (e) and (f) of the definition of Permitted Financial Indebtedness which is outstanding (or, in respect of a future date, forecast to be outstanding) on such date together with all indexation accrued on any such liabilities which are indexed less the value of all Authorised Investments and other amounts standing to the credit of any Account (other than an amount equal to the aggregate of any amounts which represent Deferrals of K or Distributions which have been declared but not paid on such date) (where such debt is denominated other than in Sterling, the nominal amount outstanding will be calculated: (i) in respect of debt with associated Currency Hedging Agreements, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreements; or (ii) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate on such date).

"**Class A RAR**" means, on any Calculation Date, the ratio of Class A Net Indebtedness to RCV at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

"**Class A Required Balance**" means, on any Payment Date, the aggregate of the next 12 months' interest and other finance charges (falling within the definition of Class A Debt Interest) forecast to be due on the Class A Debt and the Unsecured TWUF Bond Debt of the TWU Financing Group.

"**Class A Unwrapped Bonds**" means the Class A Bonds that do not have the benefit of a Financial Guarantee.

"**Class A Wrapped Bonds**" means the Class A Bonds that have the benefit of a Financial Guarantee.

"**Class B Bonds**" means the Class B Wrapped Bonds and the Class B Unwrapped Bonds.

"**Class B Debt**" means any financial accommodation that is, for the purposes of the STID, to be treated as Class B Debt and includes all debt outstanding under:(a) the Class B Wrapped Bonds and the Class B Unwrapped Bonds issued by the Issuer after the Initial Issue Date; and(b) the G&R Deed in respect of the Class B Wrapped Bonds.

"**Class B Debt Instructing Group**" or "**Class B DIG**" means a group of representatives (each a "**Class B DIG Representative**") of Qualifying Class B Debt, comprising:

- (a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds), the Financial Guarantor of such Sub-Class of Class B Wrapped Bonds;
- (b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default, has occurred and is continuing in respect of the relevant Financial Guarantor) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; and

- (c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (b) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in relevant Accession Memorandum, as the Class B DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

"**Class B Debt Service Reserve Account**" means the account of the Issuer titled "Class B Debt Service Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

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

"**Class B Required Balance**" means, on any Payment Date, the aggregate of the next 12 months' interest and other finance charges (falling within the definition of Senior Debt Interest and relating to Class B Debt) forecast to be due on the Class B Debt of the TWU Financing Group.

"**Class B Unwrapped Bonds**" means the Class B Bonds that do not have the benefit of a Financial Guarantee.

"**Class B Wrapped Bonds**" means the Class B Bonds that have the benefit of a Financial Guarantee from Financial Guarantee.

"**Clearstream, Luxembourg**" means Clearstream Banking, société *anonyme*.

"**Common Agreements**" means the Security Documents, the Bond Trust Deed, the CTA, the Master Definitions Agreement, the Account Bank Agreement, the CP Agreement, the Tax Deed of Covenant, the Calculation Agency Agreement and any Finance Document to which no Secured Creditor other than the Security Trustee and/or the Issuer and/or any Agent is a party.

"**Common Terms Agreement**" or "**CTA**" means the common terms agreement entered into on or about the Initial Issue Date between, among others, the Obligors, the Existing Finance Lessors and the Security Trustee, and which contains certain representations and covenants of the Obligors and Events of Default.

"**Companies Act**" means the United Kingdom Companies Act 1985, as amended and the Companies Act 2006, as in force from time to time.

"**Compensation Account**" means the account of TWUL entitled the "Compensation Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.

"**Competition Act**" means the United Kingdom Competition Act 1998.

"**Competition Commission**" or "**CC**" means the United Kingdom Competition Commission.

"**Compliance Certificate**" means a certificate, substantially in the form of Schedule 9 (*Form of Compliance Certificate*) of the CTA in which each of the Issuer, TWUF and TWUL, periodically, provides certain financial statements to the Security Trustee and each Rating Agency as required by the CTA.

"**Conditions**" means the terms and conditions of the Bonds set out in the Bond Trust Deed as may from time to time be amended, modified, varied or supplemented in the manner permitted under the STID.

"**Construction Output Price Index**" means the index issued by the Department for Business, Enterprise and Regulatory Reform (or any successor thereto), varied from time to time, relating to price levels of new build construction based on a combination of logged values of tender price indices, labour and materials cost indices and on the value of new construction orders in the United Kingdom.

"**Contractor**" means any person (being either a single entity, consortium or joint venture) that is a counterparty to an Outsourcing Agreement or Capex Contract.

"**Control**" of one person by another person means (other than in the Tax Deed of Covenant where it has the meaning defined therein) that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise and whether acting alone or in concert with another or others) has the power to appoint and/or remove the majority of the members of the governing body of that person or otherwise controls or has the power to control the affairs and policies of that person (and references to "**Controlled**" and "**Controlling**" shall be construed accordingly).

"**Coupon**" means an interest coupon appertaining to a Definitive Bond (other than a Zero Coupon Bond) and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 14 (Replacement of Bonds, Coupons, Receipts and Talons).

"**Couponholders**" means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders.

"**Court**" means the High Court of England and Wales.

"**CP Agreement**" means the conditions precedent agreement, dated on or around the date of this Prospectus between, among others, the Bond Trustee, the Security Trustee and the Obligors.

"**Currency Hedging Agreement**" means any Hedging Agreement with a Hedge Counterparty in respect of a currency exchange transaction.

"**Date Prior**" means, at any time, the date which is one day before the next Periodic Review Effective Date.

"**Dealers**" means Barclays Bank PLC, Dresdner Bank AG London Branch, HSBC Bank plc, Royal Bank of Canada Europe Limited and Macquarie Bank Limited, London Branch 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 on or about the date of this Prospectus between the Issuer, the Obligors and the Dealers named therein (or deemed named therein) concerning the purchase of Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto.

"**Debt Service Payment Account**" means the account of TWUL entitled the "Debt Service Payment Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.

"**Debt Service Reserve Account**" means each of the Class A Debt Service Reserve Accounts and the Class B Debt Service Reserve Account.

"**Default**" means (a) an Event of Default; (b) a Trigger Event; or (c) a Potential Event of Default.

"**Default Situation**" means any period during which there subsists an Event of Default.

"**Deferral of K**" means, in respect of any Financial Year, an amount equal to the difference between the total revenue that is projected by TWUL to be raised during such Financial Year on the basis of the announced charges and the revenue that would have accrued if TWUL had established prices at the full price cap available to it under the Instrument of Appointment.

"Definitive Bond" means a Bearer Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed in exchange for either a Temporary Global Bond or part thereof or a Permanent Global Bond (all as indicated in the applicable Final Terms), such Bearer Bond in definitive form being in the form or substantially in the form set out in Schedule 2, Part C to the Bond Trust Deed and having the Conditions endorsed thereon and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.

"DEFRA" means the United Kingdom Department for the Environment, Food and Rural Affairs.

"Determination Date" means the date which is seven Business Days prior to each Payment Date.

"DETR" means the Department of the Environment, Transport and the Regions which had responsibility for the Environment prior to DEFRA.

"DGWS" means or **"Director General"** means the Director General of Water Services in England and Wales.

"DIG Directions Request" means a written notice of each DIG Proposal sent by the Security Trustee to the relevant DIG Representatives pursuant to the STID.

"DIG Proposal" means a proposal pursuant to the STID requiring a Majority Creditor decision in relation to the resignation of the Security Trustee or any vote to terminate or extend Standstill in accordance with the STID.

"DIG Representative" means each Class A DIG Representative or, as the case may be, Class B DIG Representative.

"Directors" means the Board of Directors for the time being of the Issuer or, as the case may be, the relevant Obligor.

"Discharge Date" means the date on which all obligations of the Issuer, TWUF and TWUL under the Finance Documents have been irrevocably satisfied in full and no further obligations are capable of arising under the Finance Documents.

"Distribution" means, any payments (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any Associate other than:

- (a) payments made to such persons pursuant to arrangements entered into for the provision of management and know-how services and which are entered into on bona fide arm's length terms in the ordinary and usual course of trading (including pursuant any agreement made or to be made between TWUL or any other member of the TWU Financing Group and any member of the Macquarie Bank Group in relation to the provision of financial, operational or corporate advisory services) to the extent that the aggregate of all such payments does not exceed 1 per cent. of RCV in any consecutive twelve month period;
- (b) any payments made to such persons pursuant to any Outsourcing Agreements and/or Capex Contracts which were entered into and remain in compliance with the Outsourcing Policy save that if any Outsourcing Agreement and/or Capex Contract should cease to comply in all material respects with the Outsourcing Policy, all payments thereunder made by TWUL shall only be made as Distributions where such non-compliance has remained unremedied for a period in excess of 365 days from the date on which TWUL became aware of such non-compliance;
- (c) rental payments made to a member of the Thames Water Group in respect of any Permitted Property Lease granted in favour of TWUL by any member of the Thames Water Group;

- (d) payments made to such persons pursuant to arrangements entered into on terms that are not bona fide and arm's length in the ordinary and usual course of trading to the extent that the aggregate of all such payments does not exceed 0.1 per cent. of RCV in any consecutive twelve month period; or
- (e) any payments made to such persons in respect of a Permitted Post Closing Event.

"**Drought Order**" means a drought order, which may be issued by the Secretary of State (in England) or the National Assembly for Wales (in Wales) on application by a Regulated Company, pursuant to section 73(1) of the WRA (as amended by the Environment Act 1995 and the Water Act).

"**DSR Liquidity Facilities**" means a debt service reserve liquidity facilities made available under a Liquidity Facility Agreement.

"**DSR Liquidity Facility Agreement**" means any agreement establishing a DSR Liquidity Facility.

"**DSR Liquidity Facility Provider**" means any provider appointed from time to time under a DSR Liquidity Facility Agreement.

"**Dual Currency Bonds**" means a Bond in respect of which the amount payable (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

"**DWI**" means the England and Wales Drinking Water Inspectorate.

"**EA**" or "**Environment Agency**" means the England and Wales Environment Agency.

"**Early Redemption Amount**" has the meaning, in relation to a Sub-Class of Bonds, given to such term in the Conditions relating to such Sub-Class of Bonds.

"**EIB Amendment Agreement**" means the amendment agreement dated on or about the Initial Issue Date between the Existing Authorised Credit Provider and TWUL relating to the Existing Authorised Credit Facilities.

"**EIN Signatories**" means the DIG Representatives representing 662/3 per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Senior Debt (or following the repayment in full of the Senior Debt, after excluding the Qualifying Debt in respect of which the Bond Trustee is the Senior DIG Representative and in respect of which the Bond Trustee in its absolute discretion has not voted).

"**Eligible Secondary Market Guarantor**" means:

- (a) an Initial Eligible Secondary Market Guarantor; and
- (b) any other financial guarantor authorised to transact credit, suretyship and financial loss insurance in the United Kingdom or any other person designated from time to time as an Eligible Secondary Market Guarantor by notice from TWUL to the Security Trustee and the Bond Trustee pursuant to the terms of the STID,

that has, in each case, entered into secondary market financial guarantee arrangements, to the satisfaction of TWUL, with a Bondholder or Secured TWUF Bondholder in respect of Class A Unwrapped Bonds or, as the case may be, Secured TWUF Bonds, which secondary market guarantee arrangements continue to be in effect and in respect of which a Notice of Disenfranchisement would not be required to be served if it were a Secondary Market Guarantor.

"**Emergency**" means the disruption of the normal service of the provision of water or wastewater services which is treated as an emergency under TWUL's policies, standards and procedures for emergency planning manual.

"Emergency Drought Order" means an emergency drought order, which may be issued by the Secretary of State (in England) or the National Assembly for Wales (in Wales) on application by a Regulated Company, pursuant to section 73(2) of the WRA (as amended by the Environment Act 1995 and the Water Act).

"Emergency Instruction Notice" means a notice, setting out the written instructions of the EIN Signatories given to the Security Trustee after (in the case of a STID Proposal) the date specified in the STID Directions Request, being not less than 10 Business Days or (in the case of a DIG Proposal) the date specified in the DIG Directions Request being not less than five Business Days after the date that the STID Directions Request or DIG Directions Request (as applicable) is deemed to be given in accordance with Clause 17.3 (*Effectiveness*) of the CTA.

"Emergency Instruction Procedure" means an emergency instruction procedure provided for in the Intercreditor Arrangements, subject to Entrenched Rights and Reserved Matters, to cater for circumstances when a Default Situation is subsisting, and certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings.

"Enforcement Action" means any step (other than the exercise of any rights of inspection of any asset or other immaterial actions taken under any Finance Lease) that a Secured Creditor is entitled to take to enforce its rights against an Obligor under a Finance Document following the occurrence of an Event of Default including, the declaration of an Event of Default, the institution of proceedings, the making of a demand for payment under a Guarantee, the making of a demand for cash collateral under a Guarantee or the Acceleration of Liabilities (other than a Permitted Lease Termination, a Permitted Hedge Termination or a Permitted EIB Compulsory Prepayment Event) by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents.

"Enforcement Order" means an enforcement order, a final enforcement order or a provisional enforcement order, each as referred to and defined in the WIA.

"Enterprise Act" means the Enterprise Act 2002.

"Entrenched Rights" means the rights of the Secured Creditors provided by the terms of Clauses 8.3 to 8.9 (inclusive) of the STID and summarised in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*" of this Prospectus.

"Environmental Claim" means any claim, proceeding, formal notice or investigation by the relevant duly appointed person pursuant to any Environmental Law;

"Environmental Law" means any applicable law (including DETR Circular 02/2000) in force in any jurisdiction in which TWUL or any of its Subsidiaries or any Joint Venture in which it has an interest conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

"Environmental Permits" or **"Environmental Approvals"** shall in either case where used mean any permit, licence, consent, approval or other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Business conducted on or from the properties owned or used by TWUL.

"EPA" means the United Kingdom Environmental Protection Act 1990.

"Equipment" means, in relation to a Finance Lease, any items of equipment, plant and/or machinery, system, asset, software licence, Intellectual Property Right, software and any other item leased under that Finance Lease.

"Equivalent Amount" means the amount in question expressed in the terms of the Base Currency, calculated on the basis of the Exchange Rate.

"EU" means the European Union.

"Euro" or "€" means the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

"Euroclear" means Euroclear Bank S.A./N.V. as operator of the Euroclear System.

"Event of Default" means (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where "Event of Default" has the meaning given to it in that Hedging Agreement) an event specified as such in Schedule 6 of the CTA (*Events of Default*) as more particularly described in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*" of this Prospectus.

"Exchange Rate" means the spot rate at which the Non-Base Currency is converted to the Base Currency as quoted by the Agent Bank as at 11.00 a.m:

- (a) for the purposes of Clause 9.3 (*Notice to Secured Creditors and Secondary Market Guarantors of STID Proposal*) and Clause 9.6 (*DIG Directions Request*) of the STID, respectively, on the date that the STID Proposal or DIG Proposal (as applicable) is dated; and
- (b) in any other case, on the date as of which calculation of the Equivalent Amount of the Outstanding Principal Amount is required, and, in each case, as notified by the Agent Bank to the Security Trustee.

"Excluded Accounts" means the Issuer's O&M Reserve Account and Debt Service Reserve Accounts to the extent the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant Liquidity Facility, and each Swap Collateral Account.

"Existing Authorised Credit Facilities" means the following facilities provided to TWUL by the Existing Authorised Credit Provider pursuant to the Existing Authorised Credit Finance Contracts:

- (a) £30,000,000 EIB 2 8.30 per cent. due 2008;
- (b) £20,000,000 EIB 2 8.15 per cent. due 2008;
- (c) £25,000,000 EIB 4 5.39 per cent. due 2007;
- (d) £50,000,000 EIB 6 6.28 per cent. due 2010;
- (e) £45,000,000 EIB 6 5.92 per cent. due 2010
- (f) £30,000,000 EIB 6 3MLO-0.080 per cent. due 2008;
- (g) £50,000,000 EIB 7 6.58 per cent. due 2010;
- (h) £23,125,000 EIB 7 3MLO-0.143 per cent. due 2009;
- (i) £26,875,000 EIB 7 3MLO-0.063 per cent. due 2009;
- (j) £50,000,000 EIB 8 5.58 per cent. due 2011;
- (k) £50,000,000 EIB 8 3MLO+0.070 per cent. due 2011; and
- (l) £150,000,000 EIB (2006) (*provided that, as at the Initial Issue Date, no loans have been disbursed in respect of such Existing Authorised Credit Facility and loans may be disbursed in respect of such facility in an amount up to £150,000,000 with an interest rate and maturity date to be determined in accordance with Finance Contract 23.618*).

"Existing Authorised Credit Finance Contracts" means:

- (a) the finance contract (FI No.1.6303) between TWUL and the Existing Authorised Credit Provider dated London, 27 November 1992 in relation to the Thames Water Project - D, as

amended by a Letter dated London, 27 November 1992 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007 (the "**Finance Contract 1.6303**");

- (b) the finance contract (FI No.1.6516) between TWUL and the Existing Authorised Credit Provider dated London, 16 March 1993, Luxembourg, 17 March 1993 in relation to the Thames Water Project - E, as amended by a Letter dated Luxembourg, 17 March 1993 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007 (the "**Finance Contract 1.6516**");
- (c) the finance contract (FI No.1.7336) between TWUL and the Existing Authorised Credit Provider dated Reading, 3 March 1998, Luxembourg, 16 March 1998 in relation to the Thames Water III Project, as amended by a Letter dated Luxembourg, 16 March 1998 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007 (the "**Finance Contract 1.7336**");
- (d) the finance contract (FI No. 20.452) between TWUL and the Existing Authorised Credit Provider dated Reading, 24 January 2000, Luxembourg, 24 January 2000 in relation to the Thames Water IV Project, as amended by a Letter dated Luxembourg, 24 January 2000 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 30 August 2000, Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007 (the "**Finance Contract 20.452**");
- (e) the finance Contract (FI No. 20.893) between TWUL and the Existing Authorised Credit Provider dated Reading, 20 December 2000, Luxembourg, 21 December 2000 in relation to the Thames Water V Project, as amended by a Letter dated Luxembourg, 21 December 2000 from the Existing Authorised Credit Provider to TWUL and Modifications to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 26 February 2001, Luxembourg, 21 January 2003, Luxembourg, 4 October 2001, Luxembourg, 6 October 2006 and Luxembourg, 8 February 2007 (the "**Finance Contract 20.893**"); and
- (f) the finance Contract (FI No. 23.618) between TWUL and the Existing Authorised Credit Provider dated Reading, 4 October 2006, Luxembourg, 4 October 2006 in relation to the Thames Water and Wastewater (UK) Project, as amended by a Letter dated Luxembourg, 4 October 2006 from the Existing Authorised Credit Provider to TWUL and a Modification to Contract between TWUL and the Existing Authorised Credit Provider dated Luxembourg, 8 February 2007 (the "**Finance Contract 23.618**"),

in each case, as amended on or about the Initial Issue Date by the EIB Amendment Agreement.

"**Existing Finance Leases**" means the leases between TWUL and each of (i) R.B Leasing (September) Limited, dated 13 December 1994 (the "**RBS Existing Finance Lease**"), (ii) Cheriton Resources 13 Limited (formerly Abbey National March Leasing (1) Limited), dated 23 July 1991 (as assigned absolutely to SG Leasing (March) Limited on 2 October 2006 and as assigned absolutely to RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited) on 31 May 2007 (the "**First RBSSAF Existing Finance Lease**")) and (iii) Cheriton Resources 13 Limited (formerly Abbey National March Leasing (1) Limited), dated 28 September 1992 (as assigned absolutely to RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited) on 2 October 2006) the "**Second RBSSAF Existing Finance Lease**" and each as amended, supplemented, assigned and novated prior to the Initial Issue Date, and each an "**Existing Finance Lease**".

"Existing Finance Lessors" means R.B. Leasing (September) Limited and RBSSAF (28) Limited (previously known as SG Leasing (Finance) Limited).

"Existing Hedge Counterparty" means each of The Royal Bank of Scotland plc, Bayerische Landesbank, Deutsche Bank AG, London Branch (previously Deutsche Bank AG London) and JPMorgan Chase Bank, N.A..

"Existing Hedging Agreements" means:

- (a) the £15,000,000 Interest Rate Hedging Agreement as documented by a 1987 Interest Rate and Currency Exchange Agreement and the corresponding schedule both dated 4 August 1992 and supplemented by the confirmation dated 25 February 1998 between TWUL and National Westminster Bank plc (as amended and restated by an amendment agreement dated the Initial Issue Date to comply with the Hedging Policy at the Initial Issue Date);
- (b) the £50,000,000 Interest Rate Hedging Agreement as documented by a 1992 ISDA Master Agreement and the corresponding schedule both dated 4 February 1998 and supplemented by the confirmation dated 5 February 1998 between TWUL and Bayerische Landesbank Girozentrale (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 the Initial Issue Date to comply with the Hedging Policy at the Initial Issue Date);
- (e) the JPY 4,000,000,000 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 23 February 1998 between the Parent and Morgan Guaranty Trust Company of New York (as novated by a 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); and
- (f) 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 the Parent and Morgan Guaranty Trust Company of New York (as novated by a 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-Compliances" means, in connection with TWUL's Instrument of Appointment, the WIA, the WRA or any judgment, law or regulation, any of the following:

- (a) the alleged breach of conditions J and/or M of its Instrument of Appointment in connection with the provision to Ofwat of non-financial data on customer services, for which TWUL received a notice under section 203(2) of the WIA on 7 June 2006;
- (b) the alleged failure to comply with the guaranteed standards scheme with which Regulated Companies are required to comply in respect of the payment of compensation to customers for interruptions to service, for which TWUL received a notice under section 22A of the WIA on 19 July 2006;

- (c) any breach or alleged breach of the Control of Pollution (Oil Storage) Regulations 2001 concerning sites operated by TWUL relating to the storage of oil, which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date;
- (d) any claim made against TWUL under section 209 of the WIA in respect of flood damage to properties resulting from burst water mains, which TWUL has received notice of on, or prior to the Initial Issue Date;
- (e) any failure or alleged failure to comply with the terms of any discharge consent or temporary discharge consent issued by the Environment Agency of England and Wales (the "EA"), or a failure or alleged failure to ensure that all relevant discharge consents as are required by the EA are in fact held (which for the avoidance of doubt, are not so held due to factors outside of TWUL's control), in each case which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date;
- (f) any breach or alleged breach of the Water Supply (Water Quality) Regulations 2000 in connection with the levels of cryptosporidium and coliforms detected at any of TWUL's water treatment works, reservoirs or customers' taps, which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date;
- (g) any breach or alleged breach of section 70 of the WIA for supplying water unfit for human consumption, which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date;
- (h) any breach or alleged breach of section 85(1) of the WRA for causing or knowingly permitting any poisonous noxious or polluting matter or any solid waste matter to enter controlled waters, which TWUL has received notice of, or has been prosecuted in respect of, on or prior to the Initial Issue Date; and
- (i) any other failure or breach or alleged failure or breach, existing at the Initial Issue Date, which would not have a material adverse impact upon TWUL's obligations under the Finance Documents.

"**Extraordinary Resolution**" means, in relation to the Bonds, a resolution passed by a meeting of Bondholders, duly convened and held in accordance with the Bond Trust Deed, by a majority of not less than three-quarters of the votes cast at such meeting and, in relation to the Secured TWUF Bonds, a resolution passed by a meeting of Secured TWUF Bondholders, duly convened and held in accordance with the relevant Secured TWUF Bond Trust Deed, by a majority of not less than three quarters of the votes cast at such a meeting.

"**Facility Agent**" means any facility agent under any Authorised Credit Facility.

"**FG Event of Default**" means in relation to any Financial Guarantor, such events as are specified in that Financial Guarantor's G&R Deed or equivalent document and, in relation to Wrapped Bonds, set out in the relevant Final Terms.

"**FG Excepted Amounts**" means any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Step-up Fee Amounts.

"**Final Determination**" means the final price determination made by Ofwat on a five yearly basis.

"**Final Terms**" means the final terms issued in relation to each Sub-Class or Tranche of Bonds as a supplement to the Conditions and giving details of the Sub-Class or Tranche.

"**Finance Documents**" means:

- (a) the Security Documents;
- (b) the Bond Trust Deed;

- (c) the Secured TWUF Bond Trust Deeds;
- (d) the Bonds (including the applicable Final Terms);
- (e) the Secured TWUF Bonds (including the applicable final terms);
- (f) each Financial Guarantee;
- (g) each G&R Deed;
- (h) each Financial Guarantee Fee Letter;
- (i) the Finance Lease Documents;
- (j) the Hedging Agreements;
- (k) the CTA;
- (l) the Issuer/TWUL Loan Agreements;
- (m) the TWUF/TWUL Loan Agreements;
- (n) the TWUL/TWH Loan Agreement;
- (o) the Initial Credit Facility Agreement;
- (p) each Liquidity Facility Agreement;
- (q) the Agency Agreement;
- (r) the Master Definitions Agreement;
- (s) the Account Bank Agreement;
- (t) the CP Agreement;
- (u) the Tax Deed of Covenant;
- (v) any Indemnification Deed;
- (w) the Existing Authorised Credit Finance Contracts (including the EIB Amendment Agreement);
- (x) any other Authorised Credit Facilities; and
- (y) each agreement or other instrument between TWUL or the Issuer or TWUF (as applicable) and an Additional Secured Creditor designated as a Finance Document by TWUL or the Issuer or TWUF (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum for such Additional Secured Creditor.

"Finance Lease Documents" means each Finance Lease together with any related or ancillary documentation.

"Finance Leases" means the Existing Finance Leases and any other finance lease entered into by TWUL in respect of plant, machinery, software, computer systems or equipment (the counterparty to which has acceded to the terms of the STID and the CTA and has agreed to be bound by the terms of Part 2 of Schedule 12 (*Provision relating to Finance Leases*) to the CTA), permitted to be entered into under the terms of the CTA each a **"Finance Lease"**.

"Finance Lessors" means the Existing Finance Lessors and any other person entering into a Finance Lease with TWUL, as permitted by the CTA and the STID, who accedes to the STID and the CTA as a Finance Lessor (each a **"Finance Lessor"**).

"Finance Party" means any person providing financial accommodation pursuant to an Authorised Credit Facility including all arrangers, agents and trustees appointed in connection with any such Authorised Credit Facility.

"Financial Guarantee Fee" means any fees payable to the Financial Guarantor under a Financial Guarantee Fee Letter.

"Financial Guarantee Fee Letter" means any letter or other agreement between a Financial Guarantor and one or more of the Obligors setting out the terms on which premia are payable in relation to one or more Financial Guarantees issued or to be issued by that Financial Guarantor.

"Financial Guarantees" means any financial guarantee issued by a Financial Guarantor in respect of any Wrapped Bond.

"Financial Guarantor" means any person which provides a financial guarantee, including the Financial Guarantees, in respect of any of the Wrapped Bonds, and **"Financial Guarantors"** means all of them if there is more than one at any time.

"Financial Indebtedness" means (without double-counting) any indebtedness for or in respect of:

- (a) moneys borrowed or raised (whether or not for cash);
- (b) any documentary or standby letter of credit facility;
- (c) any acceptance credit;
- (d) any bond, note, debenture, loan stock or other similar instrument;
- (e) any finance or capital lease or hire purchase contract which would, in accordance with Applicable Accounting Principles, be treated as such;
- (f) any amount raised pursuant to any issue of shares which are capable of redemption;
- (g) receivables sold or discounted (other than on a non-recourse basis);
- (h) the amount of any liability in respect of any advance or deferred purchase agreement if either one of the primary reasons for entering into such agreement is to raise finance or the relevant payment is advanced or deferred for a period in excess of 90 days;
- (i) any termination amount due from any member of the TWU Financing Group in respect of any Treasury Transaction that has terminated;
- (j) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing (other than any trade credit or indemnity granted in the ordinary course of TWUL's trading and upon terms usual for such trade);
- (k) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; and
- (l) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (k) above (other than any guarantee or indemnity in respect of obligations owed by one member of the TWU Financing Group to another).

"Financial Statements" means, at any time, the most recent financial statements of an Obligor, consolidated where applicable, most recently delivered to the Security Trustee.

"Financial Year" means the twelve months ending on the 31 March in each year or such other period as may be approved by the Security Trustee.

"First RBSSAF Existing Finance Lease Addendum" means the deed of amendment dated on or about the Initial Issue Date between RBSSAF (28) Limited and TWUL in respect of the First RBSSAF Existing Finance Lease.

"Fixed Rate Bond" means a Bond on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

"Flipper Bonds" means the following bonds issued by TWUF pursuant to the Flipper Bond Trust Deeds:

- (a) £250,000,000 4.75 per cent. guaranteed notes due 2010;
- (b) £200,000,000 5.05 per cent. guaranteed notes due 2020;
- (c) £225,000,000 6.59 per cent. guaranteed notes due 2021;
- (d) £600,000,000 5.125 per cent. guaranteed notes due 2037;
- (e) £300,000,000 guaranteed RPI-linked notes due 2053;
- (f) £300,000,000 guaranteed RPI-linked notes due 2055; and
- (g) £200,000,000 4.90 per cent. guaranteed notes due 2015.

"Flipper Bond Trust Deeds" means the bond trust deeds in relation to the Flipper Bonds, namely:

- (a) in respect of the Flipper Bonds referred to in sub-paragraphs (a), (b) and (g) of the definition of Flipper Bonds, the amended and restated trust deed dated 4 October 2002 (as amended by supplemental trust deeds dated 6 October 2003, 7 September 2006, 21 September 2006 and 13 October 2006) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.; and
- (b) in respect of the Flipper Bonds referred to in sub-paragraphs (c) to (f) of the definition of Flipper Bonds, the amended and restated trust deed dated 7 September 2006 (as amended by a supplemental trust deed dated 21 September 2006) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.,

in each case, as amended pursuant to a deed of variation dated on or about the Initial Issue Date.

"Flipper Bond Trustee" means The Law Debenture Trust Corporation p.l.c..

"Floating Rate Bond" means a Bond on which interest is calculated at a floating rate payable in arrear in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

"Form of Transfer" means the form of transfer endorsed on an Individual Bond Certificate in the form or substantially in the form set out in Schedule 3, Part B to the Bond Trust Deed.

"FSMA" means the Financial Services and Markets Act 2000, as amended.

"G&R Deed" means a guarantee and reimbursement deed (or agreement of similar name and effect) between, among others, the Issuer and a Financial Guarantor in connection with a particular Tranche of Wrapped Bonds.

"Global Bond" means a Temporary Global Bond and/or a Permanent Global Bond, as the context may require.

"Global Bond Certificate" means a Registered Bond in global form in the form or substantially in the form set out in Part A of the Third Schedule to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant

Dealer(s), together with the copy of each applicable Final Terms annexed thereto, comprising some or all of the Registered Bonds of the same Sub-Class sold outside the United States or to non-U.S. persons in reliance on Regulation S under the Securities Act, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealers(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.

"**Good Industry Practice**" means the standards, practices, methods and procedures as practised in the United Kingdom conforming to all applicable laws and the degree of skill, diligence, prudence and foresight which would reasonably be expected from a skilled and experienced person undertaking all or part of the Business as the case may be, under the same or similar circumstances as those applying to TWUL having regard to the regulatory pricing allowances and practices in England and Wales' regulated water and sewerage industry at the relevant time.

"**Government**" means the government of the United Kingdom.

"**Guarantee**" means, in relation to each Guarantor, the guarantee of such Guarantor given by it pursuant to the Security Document to which it is a party.

"**Guarantors**" means TWH, TWUL, TWUF and the Issuer, each a "**Guarantor**".

"**Habitats Directive**" means European Council Directive 92/43/EEC.

"**Hedge Counterparties**" means (i) the Existing Hedge Counterparties; and (ii) any counterparty to a Hedging Agreement which is or becomes party to the STID in accordance with the STID and "**Hedge Counterparty**" means any of such parties.

"**Hedging Agreement**" means any Treasury Transaction entered or to be entered into by TWUL, TWUF and/or the Issuer with Hedge Counterparties in accordance with the Hedging Policy (the counterparties to which have acceded to the terms of the STID and the CTA and agreed to be bound by the terms of certain provisions of the CTA, and references to "**Hedging Agreements**" shall be construed accordingly.

"**Hedging Policy**" means the initial hedging policy applicable to TWUL, TWUF and the Issuer set out in Schedule 7 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) of the CTA as such hedging policy may be amended from time to time by agreement between the Security Trustee, the Issuer and, in certain circumstances, the Hedge Counterparties in accordance with the STID.

"**Holding Company**" means a holding company within the meaning of section 736 of the Companies Act.

"**IDOK**" means an interim determination of K as provided for in Part IV of condition B of the Instrument of Appointment.

"**Income**" means any interest, dividends or other income arising from or in respect of an Authorised Investment.

"**Indemnification Deed**" means, with respect to any Financial Guarantor, the deed so named and entered into on or about the date of the relevant Subscription Agreement between the Obligors, the Financial Guarantor and the Dealers.

"**Independent Review**" means an independent review resulting from a Trigger Event as set out in Paragraph 3, Part 2 (*Trigger Event Consequences*) of Schedule 5 to the CTA and set out in Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

"**Indexed Bond**" means a bond in respect of which the amount payable in respect of principal and interest is calculated by reference to an index and/or formula as the Issuer and the relevant Dealer(s) may agree (as indicated in the relevant Final Terms).

"**Index Event**" has the meaning given to it in Condition 8(c).

"Individual Bond Certificate" means a Registered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed, such Registered Bond in definitive form being in the form or substantially in the form set out in Schedule 3, Part B of the Bond Trust Deed having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon.

"Initial Credit Facility" means the bank facility made available to the Issuer under the Initial Credit Facility Agreement.

"Initial Credit Facility Agent" means the agent bank appointed under the Initial Credit Facility Agreement.

"Initial Credit Facility Agreement" means the facility agreement entered into between, *inter alios*, the Issuer and the Initial Credit Facility Providers on or about the Initial Issue Date under which the Initial Credit Facility is made available.

"Initial 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.

"Initial DSR Liquidity Facilities" means the DSR Liquidity Facilities to be entered into on or about the Initial Issue Date between each of the Issuer, TWUF and the Initial DSR Liquidity Facility Providers pursuant to the Initial DSR Liquidity Facility Agreement.

"Initial DSR Liquidity Facility Agreement" means the DSR Liquidity Facility Agreement entered into on the Initial Issue Date between, among others, the Issuer, TWUF and the Initial DSR Liquidity Facility Provider.

"Initial DSR Liquidity Facility Provider" means each of the financial institutions to be assembled by the Thames Water Group each having the Minimum Short-Term rating or any successor thereto.

"Initial Eligible Secondary Market Guarantor" means each of:

- (a) Assured Guaranty (UK) Ltd;
- (b) Ambac Assurance UK Limited;
- (c) CIFG Europe;
- (d) FGIC UK Limited;
- (e) Financial Security Assurance (U.K.) Limited;
- (f) MBIA UK Insurance Limited;
- (g) MBIA Insurance Corporation; and
- (h) XL Capital Assurance (U.K.) Limited.

"Initial Issue Date" means the date of issue of the first Sub-Class of Bonds under the Programme.

"Initial Issuer/TWUL Loan Agreement" means the loan agreement entered into between the Issuer and TWUL on the Initial Issue Date.

"Initial O&M Reserve Facility Providers" means each of the financial institutions to be assembled by the Thames Water Group each having the Minimum Short-Term Rating or any successor thereto.

"Initial O&M Reserve Facility Agreement" means the O&M Reserve Facility Agreement to be entered into on or about the Initial Issue Date between the Issuer and the Initial O&M Reserve Facility Providers.

"Initial Subordinated Creditor" means the Parent.

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

"Initial TWUF/TWUL Loan Agreement" means the loan agreement entered into between TWUF and TWUL on the Initial Issue Date.

"Insolvency Act" means the Insolvency Act 1986.

"Insolvency Event" means, in respect of any company:

- (a) the initiation of or consent to Insolvency Proceedings by such company or any other person or the presentation of a petition or application for the making of an administration order (other than in the case of the Issuer or TWUF, by the Security Trustee) and, in the opinion of the Security Trustee, such proceedings are not being disputed in good faith with a reasonable prospect of success;
- (b) the giving of notice of appointment of an administrator or the making of an administration order or an administrator being appointed in relation to such company;
- (c) an encumbrancer (excluding, in relation to the Issuer or TWUF, the Security Trustee or any receiver) taking possession of the whole or any part of the undertaking or assets of such company;
- (d) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer or TWUF, by the Security Trustee or any receiver) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 30 days;
- (e) the making of an arrangement, composition, scheme of arrangement, reorganisation with or conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally;
- (f) the passing by such company of an effective resolution or the making of an order by a court of competent jurisdiction for the winding up, liquidation or dissolution of such company (except, in the case of the Issuer or TWUF, a winding up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Security Trustee or by an Extraordinary Resolution);
- (g) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company;
- (h) save as permitted in the STID, the cessation or suspension of payment of its debts generally or a public announcement by such person of an intention to do so; or
- (i) save as provided in the STID, a moratorium is declared in respect of any indebtedness of such person.

"Insolvency Official" means, in connection with any Insolvency Proceedings in relation to a company, a liquidator, provisional liquidator, administrator, Special Administrator, administrative receiver, receiver, manager, nominee, supervisor, trustee, conservator, guardian or other similar official in respect of such company or in respect of all or substantially all of the company's assets or in respect of any arrangement or composition with creditors.

"Insolvency Proceedings" means, in respect of any company, the winding-up, liquidation, dissolution, administration of such company, or any equivalent or analogous proceedings under the law of the jurisdiction in which such company is incorporated or of any jurisdiction in which such company

carries on business, including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

"Instalment Bonds" means any Bonds specified as being instalment bonds in the relevant Final Terms.

"Intellectual Property Right" means all right, title and interest in:

- (a) any trade mark, service mark, trade name, logo, patent, invention, design or similar right;
- (b) any designs, copyright, semi-conductor topography, database and know-how or intellectual property right; and
- (c) all such similar rights which may subsist in any part of the world, in each case whether registered or not, whether in existence now or in the future, and includes any related application.

"Intercompany Loan" means the principal amount of all advances from time to time outstanding under an Issuer/TWUL Loan Agreement or, as the case may be, a TWUF/TWUL Loan Agreement.

"Intercreditor Arrangements" means the arrangements between the Secured Creditors of the TWU Financing Group in the STID summarised in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".

"Interest Commencement Date" means, in the case of interest-bearing Bonds, the date specified in the applicable Final Terms from (and including) which such Bonds bear interest, which may or may not be the Issue Date.

"Interest Payment Date" means any date upon which interest or payments equivalent to interest become payable under the terms of any Authorised Credit Facility.

"Interest Rate Hedging Agreement" means a Treasury Transaction to hedge exposure to interest rates, including any RPI Linked Hedging Agreement.

"Intra-Group Debt Service Distribution" means (i) any distribution or payment to be made by TWUL for the purpose of providing TWH with the funds required to enable TWH to meet its scheduled payment obligations to TWUL (as agreed from time to time by TWUL and TWH in accordance with the TWUL/TWH Loan Agreement) under the TWUL/TWH Loan Agreement and (ii) any distribution or payment in respect of a Permitted Tax Loss Transaction between members of the TWU Financing Group.

"Intra-Group Loans" means the amounts outstanding, from time to time, in respect of the following:

- (a) the Initial Subordinated Amount;
- (b) the £200,000,000 loan agreement dated on or before the Initial Issue Date between TWH and the Parent;
- (d) the £200,000,000 loan agreement dated on or before the Initial Issue Date between TWH and Kemble Water Limited; and
- (c) any other financial indebtedness between members of the TWU Financing Group from time to time.

"Investment Grade" means a rating of at least Baa3 by Moody's or BBB- by S&P.

"Investors' Report" means each report produced by TWUL and the Issuer to be delivered within the earlier of 45 days after publication of the relevant Financial Statements or within 180 days from 31 March or 90 days from 30 September in each year substantially in the form set out in the CTA.

"IRC" means the amounts set out under the heading infrastructure renewals charge in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and

assumptions specific to TWUL in Ofwat's most recent Final Determination adjusted as appropriate for any subsequent IDOK and for Out-turn Inflation, **provided that** for the purposes of calculating any financial ratio for any Test Period for which there is no Final Determination, "IRC" shall be TWUL's good faith present estimate of such infrastructure renewals charge for such Test Period.

"**ISDA Master Agreement**" means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multi-Currency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

"**Issue Date**" means the date of issue of any Tranche of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and the Issuer or, as the case may be, TWUF makes a utilisation of that facility.

"**Issue Price**" means the price as stated on the relevant Final Terms, generally expressed as a percentage of the nominal amount of the Bonds, at which the Bonds will be issued.

"**Issuer**" means Thames Water Utilities Cayman Finance Limited a company incorporated in the Cayman Islands with limited liability under registration number MC-187772.

"**Issuer/TWUL Loan Agreement**" means any loan agreement entered into between the Issuer and TWUL, including the Initial Issuer/TWUL Loan Agreement.

"**Joint Arrangers**" means Barclays Bank PLC, Dresdner Bank AG London Branch, HSBC Bank plc, Royal Bank of Canada Europe Limited and Macquarie Bank Limited, London Branch, the joint lead arrangers of the Programme.

"**Joint Venture**" means any arrangement or agreement for any joint venture, co-operation or partnership pursuant to, required for or conducive to the operation of the Business by TWUL but shall exclude any arrangements or framework agreements entered into with a Contractor which are in accordance with and subject to the Outsourcing Policy.

"**JPY Bonds**" means the following bonds issued by TWUF pursuant to the JPY Bond Trust Deeds:

- (a) JPY4,000,000,000 2.280 per cent. notes due 2008;
- (b) JPY5,000,000,000 1.704 per cent. notes due 2009;
- (c) JPY5,000,000,000 2.135 per cent. notes due 2009; and
- (d) 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 (a) and (d) of the definition of JPY Bonds, the amended and restated trust deed (as amended or supplemented from time to time) dated 9 October 1997 (as amended by a supplemental trust deed dated 31 December 2001) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.; and
- (b) in respect of the JPY Bonds referred to in paragraphs (b) and (c) of the definition of JPY Bonds, the trust deed dated 9 October 1997 (as amended by a supplemental trust deed dated 22 October 1998) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.,

in each case, as amended or supplemented from time to time.

"**JPY Bond Trustee**" means The Law Debenture Trust Corporation p.l.c..

"**June Return**" means the detailed annual return of regulatory information submitted to Ofwat by all undertakers.

"**K**" means the adjustment factor set for each year by Ofwat by which charges made by Regulated Companies for water supply and sewerage services may be increased, decreased or kept constant.

"**Kemble Consortium**" means the consortium led by the Macquarie European Infrastructure Fund, Macquarie European Infrastructure Fund II and Macquarie Bank Limited and acting through its acquisition vehicle, Kemble Water Limited.

"**Kemble Water Group**" means Kemble Water (Holdings) Limited and all its Subsidiaries from time to time.

"**Lead Manager**" means in relation to any Tranche of Bonds, the person named as the lead manager in the relevant Subscription Agreement.

"**Lease Calculation Cashflow**" means, in respect of any Test Period commencing on 1 April in any year or, as the case may be, the Pre-Test Period, 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 or, as the case may be, the Pre-Test Period under the heading "interest" (or the equivalent thereof (howsoever worded)) in such cashflow statement, a rate of LIBOR, estimated, as at its Lease Calculation Date, by reference to the average of those rates per annum being offered by certain reference banks to prime banks in the London interbank market for entry into 12 month (or such other period as is equal to the relevant Rental Period under such Finance Lease) forward contracts, commencing on each Rental Payment Date arising during the period commencing on such Lease Calculation Date and ending on the last Rental Payment Date to occur during the relevant Test Period and as agreed between TWUL and the relevant Finance Lessor (provided that, where any Finance Lease contains Rentals which are calculated by reference to a fixed rate of interest, any Lease Calculation Cashflow produced in respect of that Finance Lease shall reflect the actual fixed rate of interest implicit in such Rental calculations), provided that where in respect of any Finance Lease there has been a change of assumption resulting in an increase or decrease in the Rental payable thereunder during any Test Period commencing on 1 April in any year or the Pre-Test Period, as the case may be, the Lease Calculation Cashflow applicable to that Finance Lease for such Test Period or the Pre-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 or the Pre-Test Period, as the case may be.

"**Lease Calculation Date**" means in respect of any Existing Finance Lease:

- (a) the Initial Issue Date; and
- (b) the date falling 10 days before the Rental Payment Date immediately preceding 1 April 2008; and
- (c) each yearly anniversary of the date referred to in (b) above,
- (d) and in respect of any other Finance Lease, means:
 - (i) the date of the Accession Memorandum executed by the relevant Finance Lessor relating to such Finance Lease; and
 - (ii) the date falling 10 days before the Rental Payment Date immediately preceding the commencement date of the first Test Period to commence on 1 April immediately after the date referred to in (i) above; and
 - (iii) each yearly anniversary of the date referred to in (ii) above,

save that where any date referred to in (b), (c) (i), (ii) or (iii) is not a Business Day, such date shall be deemed to be the immediately preceding Business Day.

"Lease Reserve Amount" means in respect of any Finance Lease in any Test Period commencing on 1 April in any year or the Pre-Test Period, 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 or, as the case may be, the Pre-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).

"LIBOR" has the meaning given to that term in the relevant Finance Document.

"Legacy Bonds" means the following bonds issued by TWUF pursuant to the Legacy Bond Trust Deeds:

- (a) £175,000,000 3.375 per cent. index-linked guaranteed notes due 2021;
- (b) £330,000,000 6.75 per cent. guaranteed bonds due 2028; and
- (c) £200,000,000 6.50 per cent. guaranteed bonds due 2032.

"Legacy Bond Trust Deeds" means the bond trust deeds in relation to the Legacy Bonds, namely:

- (a) in respect of the Legacy Bonds referred to in paragraph (a) of the definition of Legacy Bonds, the amended and restated trust deed dated 5 October 2001 (as amended and supplemented from time to time) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.;
- (b) in respect of the Legacy Bonds referred to in paragraph (b) of the definition of Legacy Bonds, the trust deed dated 9 October 1997 (as amended by a supplemental trust deed dated 22 October 1998) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.; and
- (c) in respect of the Legacy Bonds referred to in paragraph (c) of the definition of Legacy Bonds, the amended and restated trust deed dated 9 October 1997 (as amended by a supplemental trust deed dated 22 October 1998 and a supplemental trust deed dated 22 October 1999) between TWUF, TWUL and The Law Debenture Trust Corporation p.l.c.,

in each case, as amended or supplemented from time to time.

"Legacy Bond Trustee" means The Law Debenture Trust Corporation p.l.c..

"Licence" or **"Instrument of Appointment"** means the instrument of appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the Secretary of State for the Environment appointed TWUL as a water undertaker under that Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

"Licence Condition" means any of the conditions contained in the Licence.

"Liquidity Facility" means a DSR Liquidity Facility or an O&M Reserve Facility made under a Liquidity Facility Agreement and **"Liquidity Facilities"** means all of them.

"Liquidity Facility Agent" means, in respect of the Initial DSR Liquidity Facility Agreement and the Initial O&M Reserve Facility Agreement, the Royal Bank of Scotland plc and, in respect of any other Liquidity Facility Agreement, the facility agent under such Liquidity Facility Agreement.

"Liquidity Facility Agreement" means each liquidity facility agreement which has the characteristics set out in Schedule 13 (*DSR Liquidity Facility/O&M Reserve Facility Terms*) of the CTA, as established in connection with each Sub-Class of Bonds issued by or other Authorised Credit Facility provided to the Issuer or TWUL or with shortfalls in funding for Projected Operating Expenditure or projected Capital Maintenance Expenditure, each counterparty to which has acceded to the terms of the STID and the CTA.

"**Liquidity Facility Arranger**" means, in respect of any Liquidity Facility Agreement, the arranger under such Liquidity Facility Agreement.

"**Liquidity Facility Provider**" means any lender from time to time under a Liquidity Facility Agreement that has agreed to be bound by the terms of the STID and the CTA, including the DSR Liquidity Facility Providers and the O&M Reserve Facility Providers.

"**Listing Rules**" means the Listing Rules of the Financial Services Authority.

"**London Stock Exchange**" means The London Stock Exchange plc.

"**Macquarie Bank Group**" means Macquarie Bank Limited, any company Controlled by Macquarie Bank Limited, any company by which Macquarie Bank Limited is Controlled or any company in common Control with Macquarie Bank Limited from time to time.

"**Major Capex Projects**" means each of (a) the Upper Thames Reservoir Project; (b) the construction of the Thames waste water tunnel known as "Project Tideway"; and (c) any other substantive capital expenditure project to be undertaken by TWUL in connection with its Appointed Business where the net present value of the estimated total capital expenditure is equal to or greater than 10 per cent. of RCV.

"**Majority Creditors**" means the Class A DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class A Debt or following repayment in full of the Class A Debt, Class B DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class B Debt (in each case, subject to Clause 8 (*Modifications, Consents and Waivers*) and Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID) as set out in Chapter 7 (*Overview of the Financing Agreements*)).

"**Make-Whole Amount**" means any amount above par payable on redemption of any Senior Debt except where such amount is limited to accrued interest.

"**Mandatory Cost Rate**" means, in relation to any Authorised Credit Facility, the addition to the interest rate payable to compensate that Authorised Credit Provider for the cost of compliance with the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) in accordance with the formula(e) set out in the relevant Authorised Credit Facility.

"**Master Definitions Agreement**" or "**MDA**" means the master definitions agreement entered into on or about the date hereof and between, among others, the Obligors, the Bond Trustee and the Security Trustee.

"**Material Adverse Effect**" means the effect of any event or circumstance which is materially adverse, taking into account the timing and availability of any rights or remedies under the WIA or the Instrument of Appointment, to:

- (a) the financial condition of TWUL, the Issuer, TWUF or of the TWU Financing Group taken as a whole;
- (b) the ability of any member of the TWU Financing Group to perform its material obligations under any Finance Document;
- (c) the validity or enforceability of any Finance Document or the rights or remedies of any Secured Creditor thereunder; or
- (d) the ability of TWUL to perform or comply with any of its material obligations under the Instrument of Appointment or the WIA.

"**Material Capex Contract**" means:

- (a) any Capex Contract; and/or

- (b) any series of Capex Contracts entered into by TWUL with one or more contractors within the same corporate group (but excluding any such Capex Contracts which have expired and/or terminated),

where, in the case of (a) and/or (b) above, the aggregate annual value of such Capex Contract or all such Capex Contracts is equal to or greater than 5 per cent. of RCV.

"Material Outsourcing Agreement" means:

- (a) any Outsourcing Agreement; and/or
- (b) any series of Outsourcing Agreements entered into by TWUL with one or more contractors within the same corporate group (but excluding any such Outsourcing Agreements which have expired and/or terminated),

where, in the case of (a) and/or (b) above, the aggregate annual value of such Outsourcing Agreement or all such Outsourcing Agreements is equal to or greater than 5 per cent. of RCV.

"Maturity Date" means the date on which a Bond is expressed to be redeemable or any other Authorised Credit Facility is expressed to be repayable in full.

"Member State" means one of the 27 countries within the European Union.

"Minimum Short-Term Rating" means, in respect of any person or investment, such person's or investment's short-term unsecured debt obligations being rated, in the case of Moody's, "Prime-1" and in the case of S&P, "A-1".

"Ml/d" means megalitres per day.

"Monthly Payment Amount" has the meaning set out in Paragraph 5.9 of Schedule 11 (*Cash Management*) to the CTA, approximately (and subject to adjustment) equal to 1/12th of TWUL's Annual Finance Charge for the relevant twelve month period (or, in the case of the Pre-Test Period, the PTP Amount).

"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 or about the Initial Issue Date) to the extent such items represent expenditure of TWUL and/or are included in the net cash flow from operating activities as shown in TWUL's financial statements, any recoverable VAT, any Capital Expenditure, any movement in debtors and/or creditors relating to Capital Expenditure and any Deferrals of K) minus any exceptional items to the extent such items represent receipts of TWUL and/or are included in the net cash flow from operating activities as shown in TWUL's financial statements and corporation tax paid (other than in respect of interest received on the Intra-Group Loan between TWUL and TWH) which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any Intra-Group Debt Service Distribution, during such Test Period; and
- (b) in respect of any forward-looking element of a Test Period, the aggregate of anticipated net cash flow from operating activities (after adding back, without double counting and to the extent that such items are included in the anticipated net cash flow from operating activities, any exceptional items to the extent such items represent expenditure of TWUL and/or are included in the net cash flow from operating activities as shown in TWUL's financial statements, any recoverable VAT, any Capital Expenditure any movement in debtors and/or creditors relating to Capital Expenditure and any Deferrals of K in each case anticipated to

occur during such Test Period) minus any exceptional items to the extent such items represent receipts of TWUL and/or are included in the net cash flow from operating activities as shown in TWUL's financial statements and corporation tax which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any Intra-Group Debt Service Distributions anticipated to be paid during such Test Period less any anticipated net cash flow from operating activities of its business other than its Appointed Business and after adding back corporation tax anticipated to be paid (other than in respect of interest received on the Intra-Group Loan between TWUL and TWH) as a result of such businesses during such Test Period.

"New Money Advance" means any drawing during a Standstill under any Authorised Credit Facility which is not made (or to the extent not made) for the purpose of refinancing a drawing under such Authorised Credit Facility.

"Non-Appointed Expense" means any expense incurred in connection with activities other than Appointed Business.

"Non-Base Currency" means a currency other than pounds sterling.

"Notice" or **"notice"** means, in respect of a notice to be given to Bondholders, a notice validly given pursuant to Condition 17 (*Notices*).

"Notified Item" means any item formally notified by Ofwat to TWUL as not having been allowed for in full or part in K *provided that* there has been no Periodic Review subsequent to that notification.

"Notional Amount" means, in respect of any Finance Lease, a sum, certified by any Authorised Signatory of the relevant Finance Lessor on each Lease Calculation Date and using the relevant Lease Calculation Cashflow relating thereto as being, for the succeeding Test Period commencing on 1 April, the amount shown for each Rental Payment Date falling in that relevant Test Period or, as the case may be, the Pre-Test Period under the headings "interest" and "margin" (or any equivalents thereof (howsoever worded)) in such Lease Calculation Cashflow, together with an amount equal to the VAT on such amount at the rate applicable to rentals payable under the relevant Finance Lease.

"O&M Reserve" means the amounts standing to the credit of the O&M Reserve Accounts.

"O&M Reserve Accounts" means the accounts of TWUL and/or the Issuer entitled "O&M Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account or accounts from time to time.

"O&M Reserve Facility" means any operation and maintenance reserve liquidity facility made available under a Liquidity Facility Agreement.

"O&M Reserve Facility Agreement" means an agreement establishing an O&M Reserve Facility.

"O&M Reserve Facility Provider" means any provider from time to time of an O&M Reserve Facility.

"O&M Reserve Required Amount" means not less than 10 per cent. of TWUL's Projected Operating Expenditure and Capital Maintenance Expenditure for the forthcoming Test Period as determined on 31 March in each year in its budget for that Test Period.

"Obligors" means the Issuer, TWUF, TWUL and TWH and **"Obligor"** means any of them.

"Official List" means the official list of the UKLA.

"OFT" means the Office of Fair Trading in the United Kingdom.

"Ofwat" means the WSRA including its successor office or body.

"Operating Accounts" means each account at the Account Bank specified in the Account Bank Agreement as an Operating Account including any replacement account or other operating accounts from time to time.

"Order" means the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

"Other Parties" means the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Existing Finance Lessors, the Agents, the Account Bank, the Standstill Cash Manager and members of the Thames Water Group (other than the Obligor).

"Outsourcing Agreement" means any agreement pursuant to which TWUL sub-contracts, tenders or outsources either the day-to-day operation of its assets, business services and service delivery (including any maintenance expenditure) or acquires technical know-how and access to other Intellectual Property Rights in relation to water services that, in the case of any outsourcing TWUL could, if not outsourced, perform itself.

"Outsourcing Policy" means the outsourcing policy set out in Schedule 8 (*Outsourcing Policy*) to the CTA (as amended or replaced from time to time).

"Outstanding" means, in relation to the Bonds of all or any Sub-Class, all the Bonds of such Sub-Class issued other than:

- (a) those Bonds which have been redeemed pursuant to the Bond Trust Deed;
- (b) those Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Bondholders in accordance with Condition 17 (*Notices*)) and remain available for payment against presentation of the relevant Bonds and/or Receipts and/or Coupons;
- (c) those Bonds which have been purchased and cancelled in accordance with Condition 8(f) and (*Redemption, Purchase and Cancellation – Cancellation*);
- (d) those Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 13 (*Prescription*);
- (e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);
- (f) (for the purpose only of ascertaining the nominal amount of the Bonds Outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*); and
- (g) in the case of Bearer Bonds, any Global Bond to the extent that it shall have been exchanged for Definitive Bonds or another Global Bond and, in the case of Registered Bonds, any Global Bond Certificate to the extent that it shall have been exchanged for Individual Bond Certificates, and, in each case, pursuant to its provisions, the provisions of the Bond Trust Deed and the Agency Agreement,

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the holders of the Bonds of any Sub-Class;
- (ii) the determination of how many and which Bonds of any Sub-Class are for the time being outstanding for the purposes of Condition 15 (*Meetings of Bondholders*),

Modification, Waiver and Substitution), Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID and Paragraphs 2, 5, 6 and 13 of Schedule 4 to the Bond Trust Deed;

- (iii) any discretion, power or authority (whether contained in the Bond Trust Deed or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Bonds of any Sub-Class; and
- (iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Bonds of any Sub-Class,

those Bonds of the relevant Sub-Class (if any) which are for the time being held by or on behalf of the Issuer, the other Obligors, or any Associate of the Issuer or the other Obligors (other than any Associate which is a licensed or regulated financial institution which holds Bonds in the ordinary course of its business), in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain Outstanding.

"Outstanding Principal Amount" means, as at any date that the same falls to be determined:

- (a) in respect of Wrapped Bonds (unless an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Bonds), aggregate of any unpaid amounts owing to a Financial Guarantor under a G&R Deed to reimburse it for any amount paid by it under a Financial Guarantee in respect of unpaid principal on such Wrapped Bonds and the Principal Amount Outstanding (or the Equivalent Amount) under such Wrapped Bonds (including, any premium);
- (b) in respect of Wrapped Bonds (if an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Bond), the Principal Amount Outstanding (or the Equivalent Amount) of such Wrapped Bond (including any premium);
- (c) in respect of the Secured TWUF Bonds, the Principal Amount Outstanding (or the Equivalent Amount) of such Secured TWUF Bonds;
- (d) in respect of Unwrapped Debt, the principal amount outstanding (or the Equivalent Amount) of such Unwrapped Debt;
- (e) in respect of each Finance Lease, the Equivalent Amount of either (i) prior to an Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) under such Finance Lease and subject to any increase or reduction calculated in accordance with Clause 9.9 (*Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID, the highest termination value which may fall due during the Rental Period encompassing such date, calculated upon the assumptions set out in the cashflow report provided by the relevant Finance Lessor on the first day of each such Rental Period (or in the most recently generated cashflow report which is current on such date) or (ii) following any Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) under such Finance Lease, the actual amount (if any) that would be payable to the relevant Finance Lessor in respect of a termination of the leasing of the Equipment on the date of such Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event);
- (f) in respect of each Hedging Agreement, the Equivalent Amount of the amount (if any) that would be payable to the relevant Hedge Counterparty if an early termination date was designated on such date in respect of the transaction or transactions arising under the Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to the overriding provisions contained in the CTA and/or the STID; and

- (g) in respect of any other Secured Liabilities not covered elsewhere, the Equivalent Amount of the outstanding principal amount of such debt on such date in accordance with the relevant Finance Document,

all as most recently certified or notified to the Security Trustee, pursuant to Clause 9.9 (*Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID.

"Out-turn Inflation" means, in respect of any period for which the relevant indices have been published, the actual inflation rate applicable to such period determined by reference to movements in the Retail Price Index adjusted, as appropriate, in the case of capital additions, for any divergence between the actual movement of national construction costs, as evidenced by the Construction Output Price Index (or such other index as Ofwat may specify for the purposes of Licence Condition B or otherwise) relative to the Retail Price Index from their base levels as used in the most recent Final Determination or IDOK and their relative movement as projected by Ofwat for the purposes of that determination, and, in respect of any period, including future periods, for which the relevant indices have not yet been published, by reference to forecast rates consistent with the average monthly movement in such indices over the previous 12 months for which published indices are available.

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

"Participating Member State" means a member state of the European Community that adopts or has adopted the euro as its lawful currency under the legislation of the European Union for European Monetary Union.

"Partly Paid Bond" means a bond issued in the amount as specified in the relevant Final Terms and in respect of which further instalments will be payable in the amounts and on the dates as specified in the relevant Final Terms.

"Party" means in relation to a Finance Document a party to such Finance Document.

"Paying Agents" means, in relation to all or any Sub-Classes of the Bonds, the several institutions (including, where the context permits, the Principal Paying Agent and/or the Registrar) at their respective specified offices initially appointed as paying agents in relation to such Bonds by the Issuer and the Obligors pursuant to the Agency Agreement and/or, if applicable, any successor paying agents at their respective specified offices in relation to all or any Sub-Classes of the Bonds.

"Payment Date" means each date on which a payment is made or is scheduled to be made by an Obligor in respect of any obligations or liability under any Authorised Credit Facility.

"Payment Priorities" means the order of priority of the Permitted Payments to be made by the Issuer on each Payment Date as set out in Chapter 7 "*Overview of the Financing Agreements*" under "*Cash Management*" as adjusted following the taking of any Enforcement Action and following termination of a Standstill (other than pursuant to a waiver or revocation by the Majority Creditors or a Secured Creditor (as applicable)) in accordance with Paragraph 9.3 of Schedule 11 (*Cash Management*) to the CTA.

"Perfection Requirements" means the making of the appropriate registrations of the Security Documents with, *inter alia*, the Registrar of Companies.

"Periodic Information" means:

- (a) TWUL's annual charges scheme with details of tariffs;
- (b) a summary of TWUL's strategic business plan at each Periodic Review;
- (c) TWUL's current Procurement Plan (if any);
- (d) TWUL's annual drinking water quality report;

- (e) TWUL's annual environmental report;
- (f) TWUL's annual conservation and access report; and
- (g) such other material periodic information compiled by TWUL for Ofwat.

"**Periodic Review**" means the periodic review of K as provided for in Licence Condition B, being the process by which annual price limits are set for companies holding appointments as water undertakers or as water and sewerage undertakers.

"**Periodic Review Effective Date**" means the date with effect from which the new K will take effect, following a Periodic Review.

"**Periodic Review Period**" means the period commencing on a Periodic Review Effective Date and ending on the next Date Prior.

"**Permanent Global Bond**" means in relation to any Sub-Class of Bearer Bonds a global bond in the form or substantially in the form set out in Schedule 2, Part B to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the Relevant Dealers, together with the copy of each applicable Final Terms annexed thereto, comprising some or all of the Bearer Bonds of the same Sub-Class, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed in exchange for the whole or part of any Temporary Global Bond issued in respect of such Bearer Bonds.

"**Permitted Acquisition**" means any of the following carried out by TWUL (and, in the case of paragraph (f), the newly incorporated special purpose company referred to therein):

- (a) an acquisition (including of Authorised Investments), but not of any company or shares therein, partnership or Permitted Joint Venture, made on arm's length terms and in the ordinary course of trade;
- (b) an acquisition of assets required to replace surplus, obsolete, worn-out, damaged or destroyed assets which in the reasonable opinion of TWUL are required for the efficient operation of its Business or in accordance with the Finance Leases;
- (c) an acquisition of assets (but not of any company or shares therein, partnership or Permitted Joint Venture) made on arm's length terms entered into for *bona fide* commercial purposes in furtherance of TWUL's statutory and regulatory obligations;
- (d) all contracts entered into by TWUL from time to time in relation to supplies of electricity, gas or water;
- (e) an inset business in the United Kingdom which is or will be included in RCV and which breaches neither the Instrument of Appointment nor the WIA;
- (f) (i) an acquisition or subscription of shares by TWUL in any newly incorporated special purpose holding company established for the purpose of acquiring the issued share capital of the Issuer; and (ii) the acquisition by such newly incorporated special purpose holding company of the shares of the Issuer; and
- (g) any acquisition made or Permitted Joint Venture entered into with the consent of the Security Trustee.

"**Permitted Book Debt Disposal**" means the disposal of book debts in each financial year with a nominal value of up to 0.1 per cent. of RCV (or a greater amount with the prior consent of the Security Trustee) by TWUL on arm's length terms to any person other than an Affiliate, where:

- (a) such book debts are sold to a person or persons whose business is the recovery of debts;

- (b) TWUL has made a prudent provision in its accounts against the non-recoverability of such debts;
- (c) any write-back of any provision for non-recoverability arising from the sale can only be treated as operating profit for the purposes of the financial ratios once the relevant recourse period against TWUL has expired; and
- (d) the TWUL Business Financial Model is updated to ensure that the transaction is taken into account in calculating all relevant financial ratios under the CTA.

"Permitted Disposal" means any disposal made by TWUL which:

- (a) is made in the ordinary course of trading of the disposing entity or in connection with an arm's length transaction entered into for bona fide commercial purposes for the benefit of the Business;
- (b) is of assets in exchange for other assets comparable or superior as to type, value and quality;
- (c) is of Equipment pursuant to the Finance Leases;
- (d) would not result in the Senior RAR, calculated for each Test Period by reference to the most recently occurring Calculation Date (adjusted on a pro-forma basis to take into account the proposed disposal), being more than or equal to, prior to the Ratio Step Date, 0.75:1 and from and including the Ratio Step Date, 0.90:1);
- (e) is a disposal for cash on arm's length terms of any surplus or obsolete or worn-out assets which, in the reasonable opinion of TWUL, are not required for the efficient operation of its Business and which does not cause a Trigger Event under Paragraph 1, Part 1 (*Trigger Events*) of Schedule 5 to the CTA;
- (f) is made pursuant to the Outsourcing Policy;
- (g) is a Permitted Book Debt Disposal;
- (h) is a disposal of Protected Land (as that term is defined in the WIA) in accordance with the terms of the Instrument of Appointment;
- (i) is a disposal or surrender of tax losses which is a Permitted Tax Loss Transaction;
- (j) is the disposal of assets owned by TWUL which form part of its Permitted Non-Appointed Business;
- (k) is any other disposal which is in accordance with the Instrument of Appointment provided that the consideration (both cash and non-cash) received by TWUL (or which would be received by TWUL if such disposal was made on arm's length terms for full commercial value to an unconnected third party) in respect of any such disposal when aggregated with all other such disposals by it made in (i) the immediately preceding twelve month period does not exceed 2.5 per cent. of RCV (or its equivalent) and (ii) in the immediately preceding five-year period does not exceed 10 per cent. of RCV (or its equivalent);
- (l) is a disposal of assets to a partnership or a Permitted Joint Venture made on arm's length terms entered into for *bona fide* commercial purposes in furtherance of TWUL's statutory and regulatory obligations;
- (m) is a Permitted Sale and Leaseback; or
- (n) any disposal pursuant to the Permitted Reorganisation,

provided that in each case such disposal does not cause any of the Trigger Event Ratio Levels to be breached.

"Permitted EIB Compulsory Prepayment Event" means a demand for prepayment of an Existing Authorised Credit Facility by the Existing Authorised Credit Provider pursuant to Article 4.03(A) of the relevant Existing Authorised Credit Finance Contract save that TWUL will not make payment to the Existing Authorised Credit Provider of any sums due and payable in respect of such demand for prepayment if (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations and Permitted EIB Compulsory Prepayment Events in respect of other Existing Authorised Credit Facilities) has occurred; or (ii) a Default Situation is subsisting or would occur as a result of such payment.

"Permitted Emergency Action" means any remedial action taken by TWUL during an Emergency which is in accordance with the policies, standards and procedures for emergency planning manual (EMPROC) of TWUL (as amended from time to time), Ofwat guidance notes and Public Procurement Rules and which TWUL considers necessary and which continues only so long as required to remedy the Emergency but in any event no longer than 28 days or such longer period as is agreed by TWUL and the Security Trustee.

"Permitted Existing Non-Appointed Business" means any business other than the Appointed Business which is carried on by TWUL at the Initial Issue Date and (a) which falls within the Permitted Non-Appointed Business Limits applicable to Permitted Existing Non-Appointed Business, and (b) in respect of which all material risks related thereto are insured in accordance with the provisions relating to insurance contained in the CTA, and (c) which does not give rise to any material actual or contingent liabilities for TWUL that are not properly provided for in its financial statements.

"Permitted Financial Indebtedness" means:

- (a) Financial Indebtedness incurred under the Issuer/TWUL Loan Agreement, the TWUF/TWUL Loan Agreements or the TWUL/TWH Loan Agreements;
- (b) Financial Indebtedness incurred by one member of the TWU Financing Group to another member if the recipient of that Financial Indebtedness is an Obligor;
- (c) Financial Indebtedness incurred under any Finance Document;
- (d) Financial Indebtedness incurred under a Treasury Transaction provided (i) it is in compliance with the Hedging Policy; or (ii) it is a Treasury Transaction entered into by TWUL in the ordinary course of its business to manage risk inherent in its business for non-speculative purposes only and not in respect of any Financial Indebtedness;
- (e) any Unsecured TWUF Bond Debt;
- (f) any unsecured Financial Indebtedness (excluding Unsecured TWUF Bond Debt) provided that:
 - (i) the aggregate amount of such Financial Indebtedness does not exceed 0.80 per cent. of RCV; and
 - (ii) if such unsecured Financial Indebtedness is incurred following the occurrence of the Permitted Unsecured Financial Indebtedness Trigger whilst any Unsecured TWUF Bond Debt remains outstanding, the Obligors may not incur any additional Permitted Financial Indebtedness under this paragraph (f) for so long as any Unsecured TWUF Bond Debt remains outstanding if, as a result of such incurrence, the aggregate Permitted Financial Indebtedness outstanding under paragraphs (e) and (f)(i) of this definition would exceed 0.80 per cent. of RCV;
- (g) any Subordinated Debt entered into after the Initial Issue Date;
- (h) Financial Indebtedness incurred under the Intra-Group Loans;
- (i) Financial Indebtedness where only BACS or similar daylight-banking accommodation is provided

- (j) such further Financial Indebtedness incurred by the Issuer, TWUF or TWUL that complies with the following conditions:
 - (i) at the time of incurrence of that Financial Indebtedness, no Default is continuing or will arise as a result of the incurrence of such Financial Indebtedness;
 - (ii) the Financial Indebtedness is made available pursuant to an Authorised Credit Facility the provider of which is a party to, or has acceded to, the CTA and STID;
 - (iii) as a result of the incurrence of the Financial Indebtedness:
 - (A) neither TWUL nor the Issuer nor TWUF will be in breach of the liquidity facility or financial covenants contained in the CTA; and
 - (B) no Authorised Credit Provider will have substantially better or additional entrenched Rights under the STID than those Authorised Credit Providers providing similar Financial Indebtedness of the same class; and
 - (C) the Hedging Policy shall continue to be complied with in all respects;
 - (iv) the Financial Indebtedness which is Class A Debt ranks (save for, if applicable, any Financial Guarantee) *pari passu* in all respects with all other Class A Debt and the Financial Indebtedness that is Class B Debt ranks *pari passu* in all respects with all other Class B Debt;
 - (v) if such further Financial Indebtedness is Class A Debt or Class B Debt then the Senior RAR (taking into account the proposed incurrence of such debt) must be less than or equal to (i) prior to the Ratio Step Date, 0.75:1; and (ii) from and including the Ratio Step Date, 0.90:1) for each Test Period calculated by reference to the then most recently occurring Calculation Date;
 - (vi) if such further Financial Indebtedness is Class A Debt then the Class A RAR (taking into account the proposed incurrence of such debt) must be less than or equal to 0.75:1 and the Class A Adjusted ICR must be greater than or equal to 1.30:1 for each Test Period calculated by reference to the then most recently occurring Calculation Date;
 - (vii) if such further Financial Indebtedness is incurred under a Finance Lease, the amount of that Financial Indebtedness, when aggregated with all other Financial Indebtedness under Finance Leases, shall not exceed an amount 15 per cent. of RCV or its equivalent; and
 - (viii) to the extent that such Financial Indebtedness is to amortise, each Financial Guarantor and the Security Trustee has granted its written consent to such Financial Indebtedness prior to its incurrence;
- (k) Financial Indebtedness incurred under a Permitted Sale and Leaseback; or
- (l) such further Financial Indebtedness incurred by any member of the TWU Financing Group with the consent of the Security Trustee.

For the purposes of this definition only, the termination sums payable under a Treasury Transaction that has been terminated shall not be treated as Financial Indebtedness and the occurrence of such event shall not be construed as the incurrence of Financial Indebtedness.

"Permitted Hedge Termination" means the termination of a Hedging Agreement in accordance with the Hedging Agreement and the provisions of Schedule 7 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) of the CTA.

"Permitted Joint Venture" means, after the Initial Issue Date, the financing, development, design, carrying out and management by or on behalf of TWUL of any new Joint Venture to which the Security

Trustee has consented (such consent not to be unreasonably withheld) pursuant to the terms of the CTA and the operation by or on behalf of TWUL of that Joint Venture in accordance with the criteria set out in the CTA.

"Permitted Lease Termination" means any termination of the leasing of all or any part of the Equipment (or the prepayment of the Rentals arising by reason of such termination) in the following circumstances:

- (a) *Total Loss*: Pursuant to any provision of a Finance Lease whereby the leasing of all or any part of the Equipment thereunder will terminate following a total loss of such Equipment save that TWUL will not make payment to the relevant Finance Lessor of any sums due and payable under the relevant Finance Lease in respect of such total loss if (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment;
- (b) *Illegality*: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where it is unlawful for such Finance Lessor to continue to lease the relevant Equipment save that TWUL will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment; and
- (c) *Voluntary Prepayment/Termination*: Pursuant to any provision of a Finance Lease whereby TWUL is or will be entitled to voluntarily terminate (and require payment of a termination sum), or prepay the Rentals relating to the leasing of the relevant Equipment under such Finance Lease provided that (i) no Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) no Default Situation is subsisting or would occur as a result of such prepayment or termination.

"Permitted New Non-Appointed Business" means any business other than the Appointed Business and Permitted Existing Non-Appointed Business **provided that** (a) such business: (i) is prudent in the context of the overall business of TWUL and continues to be prudent for the duration of that Permitted New Non-Appointed Business; and (ii) is not reasonably likely to be objected to by the WSRA; and (iii) falls within the Permitted Non-Appointed Business Limits applicable to Permitted Non-Appointed Business; (b) all material risks related thereto are insured in accordance with Good Industry Practice; and (c) such business does not give rise to any material actual or contingent liabilities for TWUL that are not or would not be properly provided for in its financial statements.

"Permitted Non-Appointed Business" means Permitted Existing Non-Appointed Business and Permitted New Non-Appointed Business.

"Permitted Non-Appointed Business Income" means income received by TWUL pursuant to its Permitted Non-Appointed Business.

"Permitted Non-Appointed Business Limits" means in respect of Permitted Non-Appointed Business, that the average of the Non-Appointed Expenses during the current Test Period and the immediately two preceding Test Periods does not exceed 5 per cent. of Cash Expenses of TWUL during such Test Periods.

"Permitted Payments" means the application of monies credited to the Debt Service Payment Account in accordance with the Payment Priorities.

"Permitted Post Closing Events" means:

- (a) payment of transaction fees and expenses, to the extent not paid on the Initial Issue Date; or
- (b) payments and other actions by any or all Obligor or other entities to enable Kemble Water Limited to pay certain amounts outstanding under the Bridge Facility and related documentation and the discharge of the security created under such documents; or
- (c) any other payments listed in writing by TWUL as at the Initial Issue Date and signed by way of approval by the Security Trustee.

"Permitted Property Lease" means:

- (a) a lease granted in favour of TWUL pursuant to a Permitted Sale and Leaseback;
- (b) the lease in respect of Rose Kiln Court granted in favour of TWUL by Thames Water Investments Limited;
- (c) the lease in respect of Clearwater Court granted in favour of TWUL by Thames Water Investments Limited; or
- (d) the lease in respect of Walnut Court 1 granted in favour of TWUL by Thames Water Investments Limited.

"Permitted Reorganisation" means each of the steps referred to in paragraph (f) of the definition of Permitted Acquisition.

"Permitted Sale and Leaseback" means:

- (a) the sale by TWUL and subsequent leaseback by TWUL of the property located at Walnut Court 2; and
- (b) the sale by TWUL and subsequent leaseback by TWUL of the Property located at Spencer House.

"Permitted Security Interest" means any security interest falling under paragraphs (a) to (f) (inclusive) below which is created by any Obligor, any security interest falling under paragraphs (g) to (k) (inclusive) below which is created by TWUL or the Issuer or TWUF and any security interest falling under paragraphs (l) to (r) (inclusive) below which is created by TWUL:

- (a) a Security Interest created under the Security Documents or contemplated by the Finance Documents;
- (b) any Security Interest specified in the cash management provisions of the CTA, if the principal amount thereby secured is not increased;
- (c) a Security Interest comprising a netting or set-off arrangement entered into by a member of the TWU Financing Group in the ordinary course of its banking arrangements;
- (d) a right of set-off, banker's liens or the like arising by operation of law or by contract by virtue of the provision of any overdraft facility and like arrangements arising as a consequence of entering into arrangements on the standard terms of any bank providing an overdraft;
- (e) any Security Interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or government charges which are being contested by the relevant member of the TWU Financing Group in good faith and with a reasonable prospect of success;
- (f) any Security Interest created in respect of any pre-judgment legal process or any judgment or judicial award relating to security for costs, where the relevant proceedings are being contested

in good faith by the relevant member of the TWU Financing Group by appropriate procedures and with a reasonable prospect of success;

- (g) a Security Interest comprising a netting or set-off arrangement entered into under any Hedging Agreement entered into in accordance with the Hedging Policy where the obligations of other parties thereunder are calculated by reference to net exposure thereunder (but not any netting or set-off relating to such Hedging Agreement in respect of cash collateral or any other Security Interest except as otherwise permitted hereunder);
- (h) a lien arising under statute or by operation of law (or by agreement having substantially the same effect) and in the ordinary course of business provided that such lien is discharged within 30 days of any member of the TWU Financing Group becoming aware that the amount owing in respect of such lien has become due;
- (i) a lien in favour of any bank over goods and documents of title to goods arising in the ordinary course of documentary credit transactions entered into in the ordinary course of trade;
- (j) a Security Interest created over shares and/or other securities acquired in accordance with the CTA held in any clearing system or listed on any exchange which arise as a result of such shares and/or securities being so held in such clearing system or listed on such exchange as a result of the rules and regulations of such clearing system or exchange;
- (k) a Security Interest approved by the Security Trustee, the holder of which has become a party to the STID;
- (l) a Security Interest over or affecting any asset acquired on arm's length terms after the Initial Issue Date and subject to which such asset is acquired, if:
 - (i) such Security Interest was not created in contemplation of the acquisition of such asset;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the TWU Financing Group; and
 - (iii) unless such Security Interest falls within any of Paragraphs (o) to (r) below, (A) such Security Interest is removed or discharged within six months of the date of acquisition of such asset; or (B) the holder thereof becomes party to the STID;
- (m) a Security Interest arising in the ordinary course of business and securing amounts not more than 90 days overdue or if more than 90 days overdue, the original deferral was not intended to exceed 90 days and such amounts are being contested in good faith;
- (n) a Security Interest arising under or contemplated by any Finance Leases, Permitted Sale and Leaseback hire purchase agreements, conditional sale agreements or other agreements for the acquisition of assets on deferred purchase terms where the counterparty becomes party to the STID;
- (o) a right of set-off existing in the ordinary course of trading activities between TWUL and its suppliers or customers (including, but not limited to, any existing or future bulk water supply contracts, or any existing or future gas or electricity supply contracts);
- (p) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business;
- (q) any retention of title arrangements entered into by TWUL in the ordinary course of business; or
- (r) in addition to any Security Interests subsisting pursuant to the above any other Security Interests **provided that** the aggregate principal amount secured by such Security Interests does not at any time exceed 0.2 per cent. of RCV,

to the extent and for so long, in each case, as the creation or existence of such Security Interest would not contravene the terms of the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or the WIA.

"Permitted Share Pledge Acceleration" means the acceleration by the Secured Creditors (subject to the availability of funds) of their respective claims to the extent necessary to apply proceeds of enforcement of the Share Pledges provided by TWH pursuant to the Security Agreement.

"Permitted Subsidiary" means the Issuer, TWUF and any other Subsidiary of TWUL from time to time which is acquired by TWUL pursuant to a Permitted Acquisition and is notified in writing to the Security Trustee on or as soon as practicable after the date of such Permitted Acquisition.

"Permitted Tax Loss Transaction" means any surrender of tax losses or agreement relating to a Tax benefit or relief (including for the avoidance of doubt an election under section 171A or 179A of the Taxation of Chargeable Gains Act 1992) or any other agreement relating to Tax (including for the avoidance of doubt the payment of any balancing payment pursuant to and in accordance with the provisions of paragraphs 7A or 7C of Schedule 28AA of the Income and Corporation Taxes Act 1988) between:

- (a) an Obligor and another Obligor; or
- (b) an Obligor and any other member of the Kemble Water Group (not being an Obligor)

in either case in accordance with various provisions to be set out in the Tax Deed of Covenant.

"Permitted Unsecured Financial Indebtedness Trigger" means the date upon which the aggregate Permitted Financial Indebtedness of the TWU Financing Group under paragraphs (e) and (f)(i) of the definition of Permitted Financial Indebtedness is equal to or less than 0.80 per cent. of RCV.

"Permitted 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.

"Pre-Test Period" means the period from the Initial Issue Date up to 31 March 2008.

"Principal Amount Outstanding" means, in relation to a Secured TWUF Bond, a Bond, Sub-Class or Class, the original face value thereof (in relation to any Indexed Bonds or any Secured TWUF Bonds which are designated as "Indexed Linked Interest" bonds under the applicable pricing supplement or final terms, as adjusted in accordance with the Conditions or, as the case may be, the applicable terms and conditions of the Secured TWUF Bonds) less any repayment of principal made to the holder(s) thereof in respect of such Secured TWUF Bond, Sub-Class or Class.

"Principal Paying Agent" means Deutsche Bank AG, London Branch under the Agency Agreement, or its Successors thereto.

"Procurement Plan" means the procurement plan (if any) prepared and amended from time to time by TWUL in accordance with its obligations under the Instrument of Appointment after notifying the Security Trustee and consulting with the Security Trustee.

"Programme" means the £10,000,000,000 guaranteed bond programme established by the Issuer admitted to the Official List and to the London Stock Exchange.

"Projected Operating Expenditure" means at any time, the operating expenditure projected in the operating budget for the Test Period in which such date falls.

"Prospectus" means any Prospectus prepared by or on behalf of, and approved by, the Issuer in connection with the establishment of the Programme and/or the issue of the Bonds or any information memorandum or Prospectus prepared by or on behalf of and approved by the Issuer in connection with the general syndication in the interbank market of any Authorised Credit Facility.

"Protected Land" means (as the term is defined in the WIA), in relation to a Regulated Company any land which, or any interest or right in or over land which:

- (a) was transferred to that company in accordance with a scheme under Schedule 2 to the Water Act 1989 or, where that company is a statutory water company (as defined in Section 219 of the WIA), was held by that company at any time during the financial year ended 31 March 1990;
- (b) is or has at any time on or after 1 September 1989 been held by that company for purposes connected with the carrying out of its functions as a water undertaker or sewerage undertaker; or
- (c) has been transferred to that company in accordance with a scheme under Schedule 2 to the WIA from another company in relation to which that land was protected when the other company held an Instrument of Appointment,

as such definition may be amended by statute or law.

"PTP Amount" means £17.3 million.

"Public Procurement Rules" means public procurement rules of the United Kingdom and of the European Communities affecting the water and sewerage sector and including any jurisprudence of the courts of the United Kingdom and of the European Communities and decisions of the European Commission in respect of such rules.

"Qualifying Class A Debt" means the aggregate Outstanding Principal Amount of Class A Debt entitled to be voted by the Class A DIG Representatives.

"Qualifying Class B Debt" means the aggregate Outstanding Principal Amount of Class B Debt entitled to be voted by the Class B DIG Representatives.

"Qualifying Debt" means the Qualifying Class A Debt and the Qualifying Class B Debt.

"RAG 5" means Regulatory Accounting Guidelines 5 "Transfer pricing in the water industry", version 5.03.

"Rating Agencies" means Moody's and S&P and any further or replacement rating agency appointed by the Issuer or TWUF with the approval of the Security Trustee (acting upon the instructions of the Majority Creditors) to provide a credit rating or ratings for the Class A Debt and the Class B Debt and underlying ratings in respect of Class A Wrapped Bonds and Class B Wrapped Bonds for so long as they are willing and able to provide credit ratings generally (and **"Rating Agency"** means any one of them).

"Rating Requirement" means confirmation from any two Rating Agencies or, where expressly stated, all Rating Agencies then rating the Bonds that, in respect of any matter where such confirmation is required, the shadow rating is, in the case of the Class A Wrapped Bonds, BBB by S&P and Baa2 by Moody's or above and in the case of the Class A Unwrapped Bonds, is BBB by S&P and Baa2 by Moody's or above.

"**Ratio Step Date**" means 31 March 2010.

"**RBS Existing Finance Lease**" has the meaning given to it in the definition of Existing Finance Leases.

"**RBS Existing Finance Lease Addendum**" means the deed of amendment dated on or about the Initial Issue Date between R.B. Leasing (September) Limited and TWUL in respect of the RBS Existing Finance Lease.

"**RCV**" means, in relation to any date, (i) the regulatory capital value for such date as last determined (excluding any draft determination of the regulatory capital value by Ofwat) and notified to TWUL by Ofwat at the most recent Periodic Review or IDOK or other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review or IDOK (interpolated as necessary and adjusted as appropriate for Out-turn Inflation), provided that "RCV" for the purposes of calculating the Senior RAR or Class A RAR for any Test Period for which there is no Final Determination shall be TWUL's good faith, present estimate of its regulatory capital value on the last day of such Test Period; plus (ii) an amount equal to the Variances attributable to investment in Major Capex Projects.

"**Receipt**" means a receipt attached on issue to a Definitive Bond redeemable in instalments for the payment of an instalment of principal and includes any replacements for Receipts and Talons issued pursuant to Condition 14 (Replacement of Bonds, Coupons, Receipts and Talons).

"**Receiptholders**" means the persons who are for the time being holders of the Receipts.

"**Recognised Ofwat Mechanism**" means any of (i) logging up of RCV, where Ofwat has approved the relevant Capital Expenditure and the Reporter has reviewed and validated the cost of such Capital Expenditure; or (ii) an IDOK, where a Relevant Change of Circumstance has, in the reasonable opinion of TWUL, arisen or (iii) any other similar mechanism as agreed from time to time between Ofwat and TWUL and approved by the Security Trustee.

"**Register**" means a register of the Bondholders of a Sub-Class of Registered Bonds.

"**Registered Bonds**" means those of the Bonds which are for the time being in registered form.

"**Registered Office Agreement**" means the registered office agreement dated 12 July 2007 between the Issuer, M&C Corporate Services Limited and Maples and Calder.

"**Registrar**" means Deutsche Bank Trust Company Americas as a registrar under the Agency Agreement and any other entity appointed as a registrar under the Agency Agreement.

"**Regulated Company**" means a company appointed as a water undertaker or a water and sewerage undertaker under section 6 of the WIA.

"**Regulation S**" has the meaning given to such term under the Securities Act.

"**Relevant Change of Circumstance**" means a "Relevant Change of Circumstance" as defined in Part IV of Licence Condition B.

"**Relevant Date**" has the meaning set out in Condition 6(i) (*Definitions*).

"**Remedial Plan**" means any remedial plan agreed by TWUL and the Security Trustee under Part 2 of Schedule 5 (*Trigger Events*) of the CTA.

"**Rental**" means any scheduled payment of rental, periodic charge or equivalent sum under a Finance Lease.

"**Rental Payment Date**" means any date on which Rental is scheduled to be paid under any Finance Lease.

"**Rental Period**" means, in respect of a Finance Lease, each period falling between two consecutive Rental Payment Dates under such Finance Lease.

"Reporter" means the reporter appointed by TWUL in accordance with Licence Conditions B and C.

"Required Balance" means, on any Payment Date, the aggregate of the Class A Required Balance and the Class B Required Balance.

"Reserved Matters" means matters which, subject to the Intercreditor Arrangements, a Secured Creditor is free to exercise in accordance with its own facility arrangements and not by the direction of the Majority Creditors as more particularly described in the STID.

"Restricted Payment" means any Distribution, Deferral of K, or payment under the Subordinated Debt other than:

- (a) any payment under any Authorised Credit Facility in accordance with the provisions of the CTA and the STID;
- (b) a payment made under a Permitted Tax Loss Transaction;
- (c) any Permitted Post-Closing Event; or
- (d) an Intra-Group Debt Service Distribution.

"Restricted Payment Condition" means each of the conditions which must be satisfied or waived by the Security Trustee before a Restricted Payment may be made by the Issuer, TWUF or TWUL.

"Retail Price Index" or **"RPI"** means the all items retail prices index for the United Kingdom published by the Office for National Statistics or at any future date (except in the case of an RPI Linked Hedging Agreement) such other index of retail prices as may have then replaced it for the purposes of Ofwat's determination of price limits for water and sewerage services or (in the case of an RPI Linked Hedging Agreement), such other index or retail prices as specified in such RPI Linked Hedging Agreement.

"Rights" means all rights vested in the Security Trustee by virtue of, or pursuant to, its holding the interests conferred on it by the Security Documents or under the Ancillary Documents and all rights to make demands, bring proceedings or take any other action in respect of such rights.

"Rolling Average Period" means on each Calculation Date the Test Period ending on 31 March that falls in the same calendar year as that Calculation Date and the next subsequent two consecutive Test Periods save that, where the test comes to be calculated at a time when information is not available in respect of any forward looking Test Period (as a result of Ofwat's determination of price limits for a Periodic Review not having been published in draft or final form) then such Rolling Average Period will be the three 12 month periods which run consecutively backwards and/ or forwards from such Calculation Date for which such information is available for the last Test Period in such calculation.

"RPI Linked Hedging Agreements" means a Hedging Agreement with a Hedge Counterparty under which payments to be made by the Issuer, TWUF or, as the case may be, TWUL are indexed by reference to RPI.

"S&P" means Standard & Poor's Ratings Services, a Division of the McGraw Hill Companies Inc., or any successor to the rating agency business of S&P.

"Secondary Market Guarantor" means an Eligible Secondary Market Guarantor that has, in respect of any Class A Unwrapped Bonds, (i) delivered an FG Covered Bond Notice to the Security Trustee and the Bond Trustee in accordance with the provisions of the STID; and (ii) acceded to the STID in accordance with the provisions thereof.

"Second RBSSAF Existing Finance Lease Addendum" means the deed of amendment dated on or about the Initial Issue Date between RBSSAF (28) Limited and TWUL in respect of the Second RBSSAF Existing Finance Lease.

"Secretary of State" means one of Her Majesty's principal secretaries of state.

"Section 19 Undertaking" means an undertaking given by a Regulated Company to secure or facilitate compliance with a licence condition or a relevant statutory or other requirement and which is capable of direct enforcement under the WIA.

"Secured Creditor" means the Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Bondholders, each TWUF Bond Trustee (in its own capacity and on behalf of the relevant Secured TWUF Bondholders), the Bondholders, the Secured TWUF Bondholders, each Financial Guarantor, each Finance Lessor, the Hedge Counterparties, the Issuer, TWUF, the Liquidity Facility Agents, any Liquidity Facility Arrangers, each Liquidity Facility Provider, the Initial Credit Facility Agent, each Initial Credit Facility Provider and each other Authorised Credit Provider, the Cash Manager (other than when the Cash Manager is TWUL), the Standstill Cash Manager, each Agent and any Additional Secured Creditors.

"Secured Creditor Representative" means:

- (a) in respect of the Bondholders, the Bond Trustee;
- (b) in respect of the Secured TWUF Bondholders, the relevant TWUF Bond Trustee;
- (c) in respect of the Initial Credit Facility Providers, the Initial Credit Facility Agent;
- (d) in respect of the Issuer/TWUL Loan Agreements and TWUF/TWUL Loan Agreements, the Security Trustee (on behalf of the Issuer or, as the case may be, TWUF);
- (e) in respect of any Liquidity Facility Provider, the facility agent under the relevant Liquidity Facility Agreement;
- (f) in respect of each of the Existing Hedge Counterparties, the relevant Existing Hedge Counterparty; and
- (g) in respect of any Additional Secured Creditor, the representative of such Additional Secured Creditor (if any) appointed as its Secured Creditor Representative under the terms of the relevant Finance Document and named as such in the relevant Accession Memorandum.

"Secured Liabilities" means all liabilities incurred by any Obligor to a Secured Creditor pursuant to the Finance Documents.

"Secured TWUF Bonds" means the Flipper Bonds and, following the Initial Issue Date, any JPY Bonds or Legacy Bonds in respect of which the relevant TWUF Bond Trustee has acceded to the STID as a Secured Creditor Representative and a Class A DIG Representative.

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

"Secured TWUF Bond Trust Deeds" means the TWUF Bond Trust Deeds relating to Secured TWUF Bonds.

"Secured TWUF FG Covered Bond " means any Secured TWUF Bond in respect of which the Security Trustee is in receipt of a valid FG Covered Bond Notice (provided that such FG Covered Bond Notice has not been revoked by a Notice of Disenfranchisement in respect of the relevant Secondary Market Guarantor).

"Securities Act" means the United States Securities Act of 1933, as amended.

"Security" means the security constituted by the Security Documents including any Guarantee or obligation to provide cash collateral or further assurance thereunder.

"Security Agreement" means the deed of charge and guarantee executed in favour of the Security Trustee by each of the Obligors on or about the Initial Issue Date.

"**Security Assets**" means all property, assets, rights and undertakings the subject of the Security created by the Obligor pursuant to any Security Document, together with the Rights.

"**Security Documents**" means:

- (a) the Security Agreement;
- (b) the STID, any deed of accession thereto and any deed supplemental thereto; and
- (c) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to a Secured Creditor under the Finance Documents.

"**Security Interest**" means:

- (a) any mortgage, pledge, lien, charge, assignment, or hypothecation, or other encumbrance securing any obligation of any person;
- (b) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or
- (c) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Security of Supply Index**" means the measure used by Ofwat to assess each Regulated Company's ability to supply customers in dry years without imposing demand restrictions, such as hosepipe bans, and which is subject to a maximum of 100.

"**Security Trustee**" means Deutsche Trustee Company Limited or any successor appointed pursuant to the STID.

"**Senior Adjusted ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Senior Debt Interest during such Test Period.

"**Senior Average Adjusted ICR**" means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC to Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

"**Senior Debt**" means all Class A Debt and Class B Debt and any other Financial Indebtedness ranking in priority to Subordinated Debt of any member of the TWU Financing Group.

"**Senior Debt Interest**" means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

- (a) all interest, fees or commissions paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or TWUF's and/or the TWUL's obligations under or in connection with all Senior Debt and any Permitted Financial Indebtedness which is unsecured (including all Unsecured TWUF Bond Debt) (other than any Intra-Group Loans);
- (b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Wrapped Bonds; and
- (c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or TWUF's and/or the TWUL's obligations under and in connection with all Senior Debt,

in each case during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force) (excluding all indexation of principal, amortisation of the costs of issue of any Senior Debt or Unsecured TWUF Bond Debt within such Test Period and all other costs incurred in connection with the raising of such Senior Debt or Unsecured TWUF Bond Debt) less all interest received or in respect of forward-looking ratios, receivable by any member of the TWU

Financing Group from a third party during such period (excluding any interest received or receivable by TWUL under any Intra-Group Loan).

"**Senior Debt Provider**" means a provider of, or Financial Guarantor of, Senior Debt.

"**Senior Net Indebtedness**" means, as at any date, the aggregate of the Issuer's, TWUF's and TWUL's nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) under and in connection with any Senior Debt on such date (including accretions by indexation to the notional amount under any RPI Linked Hedging Agreement and excluding any un-crystallised mark to market amount relating to any Hedging Agreement) and the nominal amount of any Financial Indebtedness pursuant to paragraphs (e) and (f) of the definition of Permitted Financial Indebtedness which is outstanding (or, in respect of a future date, forecast to be outstanding) on such date together with all indexation accrued on any such liabilities which are indexed less the value of all Authorised Investments and other amounts standing to the credit of any Account (other than an amount equal to the aggregate of any amounts which represent Deferrals of K or Distributions which have been declared but not paid on such date); where such debt is denominated other than in pounds sterling, the nominal amount outstanding will be calculated (i) in respect of debt with associated Currency Hedging Agreements, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreements; (ii) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate on such date).

"**Senior RAR**" means, on any Calculation Date, the ratio of Senior Net Indebtedness to RCV as at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

"**Series**" means a series of Bonds issued under the Programme on a particular Issue Date, together with any Tranche or Tranches of Bonds which are expressed to be consolidated and form a single Sub-Class with any previously issued Sub-Class.

"**Sewerage Region**" means the geographical area for which a Regulated Company has been appointed as the sewerage undertaker under Section 6 of the WIA.

"**Share Pledges**" means the pledges dated on or about the Initial Issue Date, in favour of the Security Trustee, over the shares in TWUL and the Issuer respectively and "**Share Pledge**" means any one of them.

"**Shipwreck Clause**" means a clause which may be contained in the instrument of appointment of a Regulated Company and which in the case of TWUL is contained in Part IV of Licence Condition B, pursuant to which the Regulated Company may, if so permitted by the conditions of its Instrument of Appointment, request price limits to be reset if the Appointed Business either (i) suffers a substantial adverse effect which could not have been avoided by prudent management action or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action.

"**Shortfall Paragraph**" means to the extent that (after payment of all relevant operating expenditure) there is a shortfall of forecast revenues, the relevant sub-paragraph of the Payment Priorities in relation to which the revenue that is forecast to be available is insufficient to meet all of the payments in such sub-paragraph.

"**Special Administration**" means the insolvency process specific to Regulated Companies under Sections 23 to 26 of the WIA.

"**Special Administration Order**" means an order of the High Court under Sections 23 to 25 of the WIA under the insolvency process specific to Regulated Companies.

"**Special Administration Petition Period**" means the period beginning with the presentation of the petition for Special Administration under Section 24 of the WIA and ending with the making of a Special Administration Order or the dismissal of the petition.

"**Special Administrator**" means the person appointed by the High Court under Sections 23 to 25 of the WIA to manage the affairs, business and property of the Regulated Company during the period in which the Special Administration Order is in force.

"**Standard & Poor's**" or "**S&P**" means Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc. or any successor to the rating business of Standard & Poor's Ratings Services.

"**Standby Drawing**" means a drawing made under a Liquidity Facility Agreement as a result of a downgrade of a Liquidity Facility Provider below the Minimum Short-Term Rating or in the event that the Liquidity Facility Provider fails to renew its commitment on the expiry of the term of such Liquidity Facility Agreement.

"**Standstill**" means, as provided for in Clause 13.1 (*Commencement of Standstill*) of the STID, a standstill of claims of the Secured Creditors against TWUL and the Issuer immediately upon notification to the Security Trustee of the occurrence of an Event of Default.

"**Standstill Cash Manager**" means The Royal Bank of Scotland plc in its capacity as Standstill Cash Manager under the CTA, or any successor Standstill Cash Manager.

"**Standstill Event**" means an event giving rise to a Standstill in accordance with the STID.

"**Standstill Extension**" means any of the periods for which a Standstill Period is extended under Clause 13.5 (*Extension of Standstill*) of the STID.

"**Standstill Period**" means a period during which a standstill arrangement is subsisting, commencing on the date as determined by Clause 13.1 (*Commencement of Standstill*) of the STID and ending on the date as determined by Clause 13.4 (*Termination of Standstill*) of the STID.

"**Statutory Accounts**" means the statutory accounts which TWUL is required to prepare in compliance with the Companies Act.

"**STID**" means the security trust and intercreditor deed to be entered into on or about the Initial Issue Date between, among others, the Security Trustee, the Obligors, the Bond Trustee and the Flipper Bond Trustee.

"**STID Directions Request**" means a written notice of each STID Proposal sent by the Security Trustee to the Secured Creditors or their Senior DIG Representatives and requesting directions from the relevant Secured Creditors in accordance with the STID.

"**STID Proposal**" means a proposal or request made by any Secured Creditor or its Secured Creditor Representative or any Obligor in accordance with the STID proposing or requesting the Security Trustee: to change, modify or waive any term or condition of any Finance Document; to substitute the Issuer; or to take any Enforcement Action or any other action in respect of the transactions contemplated by the Finance Documents; as defined more particularly in the STID.

"**Sub-Class**" means a division of a Class.

"**Subordinated Authorised Loan Amounts**" means, in relation to any Authorised Credit Facility, the aggregate of any amounts payable by the Issuer, TWUF or TWUL to the relevant Authorised Credit Provider on an accelerated basis as a result of illegality (excluding accrued interest, principal and recurring fees and commissions) on the part of the Authorised Credit Provider or any other amounts not referred to in any other paragraph of the Payment Priorities.

"**Subordinated Creditor**" means the Initial Subordinated Creditor and any other credit provider in respect of Subordinated Debt where such credit provider has acceded to the CTA and the STID.

"**Subordinated Debt**" means the Initial Subordinated Amount and any Financial Indebtedness (other than Financial Indebtedness falling within paragraphs (e) or (f) of the definition of Permitted Financial Indebtedness) that is fully subordinated, in a manner satisfactory to the Security Trustee, to the Senior Debt and where the relevant Subordinated Creditor has acceded to the CTA and the STID.

"Subordinated Liquidity Facility Amounts" means, in relation to any Liquidity Facility, the aggregate of any amounts payable by the Issuer or TWUF to the relevant Liquidity Facility Provider in respect of its obligation to gross-up any payments made by it in respect of such Liquidity Facility or to make any payment of increased costs to such Liquidity Facility Provider (other than any such increased costs in respect of regulatory changes relating to capital adequacy requirements applicable to such Liquidity Facility Provider) or to amounts payable on an accelerated basis as a result of illegality (excluding accrued interest, principal and commitment fees) on the part of such Liquidity Facility Provider, or any other amounts not referred to in any other paragraph of the Payment Priorities.

"Subordinated Step-up Fee Amounts" means, in the case of Fixed Rate Bonds or Indexed Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms to be payable on such Bonds in excess of the initial margin as at the date on which such Bonds were issued and, in the case of Floating Rate Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms to be payable on such Bonds in excess of the initial margin on the Coupon on such Bonds as at the date on which such Bonds were issued.

"Subscription Agreement" means an agreement supplemental to the Dealership Agreement (by whatever name called) substantially in the form set out in Schedule 6 to the Dealership Agreement or in such other form as may be agreed between, among others, the Issuer and the Lead Manager or one or more Dealers (as the case may be).

"Subsidiary" means:

- (a) a subsidiary within the meaning of section 736 of the Companies Act; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 258 of the Companies Act.

"Successor" means, in relation to the Principal Paying Agent, the other Paying Agents, the Registrar, the Transfer Agent, the Agent Bank and the Calculation Agent, any successor to any one or more of them in relation to the Bonds which shall become such pursuant to the provisions of the Bond Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, registrar, transfer agents, agent bank and calculation agent (as the case may be) in relation to the Bonds as may (with the prior approval of, and on terms previously approved by, the Bond Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent being within the same city as the office(s) for which it is substituted) as may from time to time be nominated, in each case by the Issuer and the Obligors, and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Bondholders.

"Surveillance Letter" means a letter issued by the Issuer and/or TWUL to a Financial Guarantor from time to time, in which the Issuer and/or TWUL undertakes to provide the relevant Financial Guarantor with certain information and to comply with certain reporting requirements as outlined in that letter.

"Swap Collateral Account" means an account of TWUL, TWUF or the Issuer, as the case may be, into which any collateral provided by a Hedge Counterparty shall be deposited upon the relevant trigger occurring for the provision of such collateral under the terms of the applicable Hedging Agreement.

"Talonholders" means the several persons who are for the time being holders of the Talons.

"Talons" means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Bonds (other than Zero Coupon Bonds) and includes any replacements for Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

"TARGET Settlement Day" has the meaning given to such term in Condition 6(i) (Definitions) as set out in Chapter 8 *"The Bonds"*.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions will be construed accordingly.

"**Tax Deed of Covenant**" means the deed of covenant to be entered into on or about the Initial Issue Date by, among others, the Security Trustee, the Parent and the Obligor.

"**Temporary Global Bond**" means in relation to any Sub-Class of Bearer Bonds a temporary global bond in the form or substantially in the form set out in Schedule 2, Part A to the Bond Trust Deed together with the copy of the applicable Final Terms annexed thereto, with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Bearer Bonds of the same Tranche, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.

"**Test Period**" means:

- (a) the period of 12 months ending on 31 March in the then current year;
- (b) the period of 12 months starting on 1 April in the same year;
- (c) each subsequent 12 month period up to the Date Prior; and
- (d) if the Calculation Date falls within the 13 month period immediately prior to the Date Prior, the 12 month period from the Date Prior,

provided that for the Calculation Dates on 30 September 2007 and 31 March 2008, the first Test Period shall be from 1 April 2007 to 31 March 2008, in the case of the Calculation Date on 30 September 2007 the second Test Period shall be the period of 12 months starting on 1 April in the following year, and interest shall be annualised on the basis of the interest charge from the Initial Issue Date to 31 March 2008.

"**Thames Water Group**" means Kemble Water Holding Limited and its Subsidiaries.

"**Tranche**" means all Bonds which are identical in all respects save for the Issue Date, Interest Commencement Date and Issue Price of the Bonds.

"**Transaction Account**" means the accounts of each of the Issuer and TWUF titled "Transaction Account" held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

"**Transaction Documents**" means:

- (a) a Finance Document;
- (b) a Material Capex Contract or a Material Outsourcing Agreement; and
- (c) any other document designated as such by the Security Trustee and the Issuer.

"**Transfer Agent**" means Deutsche Bank Trust Company Americas under the Agency Agreement, including any Successor thereto.

"**Transfer Scheme**" means a transfer scheme under Schedule 2 of the WIA.

"**Treasury Transaction**" means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, interest rate or currency or future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap, index-linked swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate, index or price.

"**Trigger Event**" means any of the events or circumstances identified as such in Chapter 7 "*Overview of the Financing Agreements*" under "*Trigger Events*".

"**Trigger Event Ratio Levels**" means the financial ratio levels set out in paragraph (i) (*Financial Ratios*) under "*Trigger Events*" in Chapter 7 "*Overview of the Financing Agreements*".

"**TWH**" means Thames Water Utilities Holdings Limited.

"**TWH Change of Control**" means (a) any person which previously had Control of TWH ceases to have Control of TWH, (b) any person which did not previously have Control of TWH acquiring Control of TWH, in each case of which the Obligor has actual knowledge provided that any change of Control of any person controlling the Parent shall not constitute a TWH Change of Control.

"**TWU Financing Group**" means TWH, TWUF, TWUL, the Issuer and any other Permitted Subsidiaries.

"**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/TWUL Loan Agreement**" means any loan agreement entered into between TWUF and TWUL, including the Initial TWUF/TWUL Loan Agreement.

"**TWUL**" means Thames Water Utilities Limited.

"**TWUL Business Financial Model**" means the latest business financial model prepared by TWUL and delivered to the Security Trustee from time to time, in accordance with the CTA.

"**TWUL Change of Control**" means the occurrence of any of the following events or circumstances:

- (a) TWH ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, TWUL, in each case directly or indirectly; or
- (b) TWUL ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, the Issuer or TWUF.

"**TWUL/TWH Loan Agreement**" means the loan agreement entered into between TWUL and TWH on or about the Initial Issue Date pursuant to which TWUL advanced £1,200,000,000 to TWH to assist in the partial discharge by TWH of the TWUL share acquisition purchase price payable to Parent.

"**TWUL VAT Group**" means the VAT group registration with registration number GB 537 4569 15 comprising, with effect from 1 July 2007, TWUL, TWUF, the Issuer, TWH and Kemble Water Limited, of which TWUL is the representative member.

"**U.K.**" means the United Kingdom.

"**UK Listing Authority**" or "**UKLA**" means the Financial Services Authority in its capacity as competent authority under the FSMA.

"**Unsecured TWUF Bond Debt**" means all unsecured Financial Indebtedness outstanding under the Legacy Bonds and the JPY Bonds for so long as such Legacy Bonds or JPY Bonds are not Secured TWUF Bonds.

"**Unsecured TWUF Bond Payment Date**" means each date upon which a payment is made or is scheduled to be made by TWUF or TWUL in respect of any Unsecured TWUF Bond Debt.

"**Unwrapped Bondholders**" means the holders for the time being of the Unwrapped Bonds and "**Unwrapped Bondholder**" shall be construed accordingly.

"**Unwrapped Bonds**" means Bonds that do not have the benefit of a Financial Guarantee.

"**Unwrapped Debt**" or "**Unwrapped Bond**" means any indebtedness or Bond (respectively) that does not have the benefit of a Financial Guarantee.

"**Variations**" means a numerical addition to the amount of Capital Expenditure assumed by Ofwat in the last Periodic Review as certified by two directors (one of whom shall be the Finance Director) of TWUL in a certificate setting out (a) the amount of the adjustment; (b) the basis of the adjustment; and (c) where relevant, the basis of the reasonable expectation of recovery.

"**VAT**" (a) in respect of any Finance Lease Document, has the meaning given thereto in such Finance Lease Document; and (b) otherwise, means value added tax as imposed by the Value Added Tax Act 1994 and legislation supplemental thereof and other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of, or in addition to, VAT) or elsewhere.

"**VMR Programme**" means the Victorian mains replacement programme.

"**Voted Qualifying Class A Debt**" means the aggregate Outstanding Principal Amount of Class A Debt voted by the Class A DIG Representatives in accordance with the applicable provisions of the STID as part of the Class A DIG.

"**Voted Qualifying Class B Debt**" means the aggregate Outstanding Principal Amount of Class B Debt voted by the Class B DIG Representatives in accordance with the applicable provisions of the STID as part of the Class B DIG.

"**Water Act**" means the Water Act 2003.

"**Water Framework Directive**" means European Council Directive 2000/60/EC.

"**Water Quality Regulations**" means the Water Supply (Water Quality) Regulations 2000.

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

"**Water Resources Plans**" means a water resource plan which all water companies must submit to the EA pursuant to the WIA (as amended by the Water Act).

"**WIA**" means the United Kingdom Water Industry Act 1991, as amended by subsequent legislation, including the Competition and Service (Utilities) Act 1992, the Water Industry Act 1999 and the Water Act.

"**WRA**" means the United Kingdom Water Resources Act 1991, as amended by subsequent legislation including the United Kingdom Environment Act 1995.

"**Wrapped Bondholders**" means the holders for the time being of the Wrapped Bonds and "**Wrapped Bondholder**" shall be construed accordingly.

"**Wrapped Bonds**" means the Bonds that have the benefit of a Financial Guarantee.

"**WSRA**" means the Water Services Regulation Authority (WSRA, and otherwise known as Ofwat), the economic regulator of the water and Sewerage industry in England and Wales and any relevant successor bodies to the Water Services Regulation Authority.

"**Zero Coupon Bond**" means a Bond specified as such in the relevant Final Terms and on which no interest is payable.

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