Equity Partners Infrastructure Company No. 1 Limited

Independent Appraisal Report Regarding Proposed Sale of 1.24% Indirect Shareholding in Thames Water

3 November 2011

Contents

Glossary

AMP	:	Asset management plan
AMP5	:	Asset management plan for period 2010 - 2015
Board or the Directors	:	EPIC's board of directors
CIS	:	Capital incentive scheme
DCF	:	Discounted cash flow
DRP	:	Dividend reinvestment plan
EBIT	:	Earnings before interest and tax
EBITDA	:	Earnings before interest, tax, depreciation and amortisation
EPAM	:	Equity Partners Asset Management Limited
EPIC or the Company	:	Equity Partners Infrastructure Company No 1 Limited
EPIM or the Manager	:	Equity Partners Infrastructure Management Limited
EV	:	Enterprise value
FYXX	:	The financial year ended 31 March 20XX
FX	:	Foreign exchange
GBP	:	British pound
GFC	:	Global financial crisis
GST	:	Goods and services tax
IPO	:	Initial public offering
IRR	:	Internal rate of return
KWHL	:	Kemble Water Holdings Limited
KWIHL	:	Kemble Water International Holdings Limited
KWHL SHA	:	KWHL Shareholders' Agreement
KWIHL SHA	:	KWIHL Shareholders' Agreement
Macquarie Group	:	The Macquarie Bank Limited group of companies
Management	:	EPIC management
MEIF I	:	Macquarie European Infrastructure Fund LP
MEIF II	:	Macquarie European Infrastructure Fund II
MIFML	:	Macquarie Infrastructure Funds Management Limited
MIRA(E)L	:	Macquarie Infrastructure and Real Assets (Europe) Limited
Moto	:	Moto International Holdings Limited
NAB	:	National Australia Bank Limited
NPAT	:	Net profit after tax
NTA	:	Net tangible assets
NWG	:	Northumbrian Water Group
NZD	:	New Zealand dollar
NZX	:	New Zealand stock exchange
Ofwat	:	UK Water Services Regulation Authority
PGC	:	Pyne Gould Corporation Limited
PwC	:	PricewaterhouseCoopers
RCV	:	Regulated capital value

Report	:	The independent appraisal report in relation to the Proposed Transaction
RPI	:	Retail price index
Shareholders	:	The shareholders of EPIC
Shareholders' Agreements	:	The KWIHL SHA and KWHL SHA, together
Strategic Review	:	The strategic review commissioned by EPIC's Board in October 2010
Thames Water	:	Thames Water Limited
The Proposed Transaction	:	The proposed sale of EPIC's shareholding in Thames Water
Torchlight	:	Torchlight Fund No. 1 LP
Torchlight Investment Group	:	Torchlight Investment Group Limited
TWUL	:	Thames Water Utilities Limited
UK	:	United Kingdom

The Board of Directors
Equity Partners Infrastructure Company No 1 Limited
PO Box 3376
AUCKLAND 1140

31 October 2011

Independent Appraisal Report regarding proposed sale of 1.24% Indirect Shareholding in Thames Water

1. PricewaterhouseCoopers (PwC) has been engaged by the Directors of Equity Partners Infrastructure Company No 1 Limited (EPIC or the Company) to prepare an independent appraisal report (the Report) in relation to the proposed sale of EPIC's indirect shareholding in Thames Water Limited (Thames Water) (the Proposed Transaction) for EPIC shareholders (the Shareholders).

Background

2. EPIC is operating in an environment that has changed considerably since the Company's establishment in 2007, particularly as a consequence of the global financial crisis (GFC). Despite reasonable underlying performance by EPIC's two main investments, recent deleveraging in combination with volatile currency markets has reduced the cash income received by EPIC from its investments and increased the Company's gearing to an unsustainable level.

3. As a result, EPIC's Directors (the Board or the Directors) commissioned a strategic review seeking a way forward that would reduce the Company's risk profile, whilst still maximising shareholder value (the Strategic Review).

4. Following the Strategic Review, EPIC has decided to pursue the sale of its 1.24% indirect stake in Thames Water, to facilitate repayment of maturing debt and provide EPIC with greater liquidity and improved financial flexibility.

5. Based on the expected sale price for the Company's Thames Water shareholding, the Proposed Transaction is likely to constitute a "major transaction" as defined in Section 129 of the Companies Act 1993. It therefore needs shareholder approval by way of a special resolution supported by 75% of those Shareholders entitled to vote and voting on the matter.

Purpose of Report

6. The Directors of EPIC have requested that PwC prepare this independent appraisal report assessing the merits of the Proposed Transaction, to assist them with informing EPIC Shareholders about the Proposed Transaction and other options that have been considered. This Report will be provided to Shareholders by the Company notwithstanding that there is no statutory requirement to do so.

7. To prepare the Report we have considered the "value implications" of the Proposed Transaction (i.e. is the price that is expected to be obtained reasonably consistent with "fair market value"); together with a range of other factors, in particular:

   - Relevant factors influencing the saleability (and therefore the expected price) for EPIC's shareholding in Thames Water;
   - What other feasible options are available to enable the Company to address the issues it faces; and
   - What happens if the Proposed Transaction does not proceed?

8. We have also sought to corroborate some of our key assumptions and analysis, particularly those relating to the UK water industry conditions and the current market for such assets, through discussion with our PwC UK colleagues who have considerable experience in this sector.

9. Each Shareholder's circumstances and investment objectives will be different. It is therefore not possible to advise what the specific impact of the Proposed Transaction will be for each individual Shareholder nor prescribe what action an individual Shareholder should take in response. Our advice is necessarily general in nature and is intended to assist each Shareholder to form their own opinion as to the implications of the Proposed Transaction for them and what action they should take given their respective circumstances.

Declarations, Qualifications, Disclaimer and Restrictions

10. This Report should be read in conjunction with the statements and declarations set out in Appendix A regarding our independence, qualifications, restrictions on the use of this Letter, reliance on information, general disclaimer, limitation of liability and our indemnity.

Independence

11. PwC New Zealand is the statutory auditor of EPIC. We do not believe that our role as auditor of EPIC compromises our independence or presents a conflict of interest.

12. Thames Water was previously a PwC UK audit client, but is no longer one. PwC UK currently carry out a range of non-audit advisory and tax engagements for Thames Water. We do not consider that these roles give rise to any conflict or independence issues, given the fact that although Thames Water is the subject of the Proposed Transaction, it will not be a party to it.

Note

13. All monetary amounts herein are expressed in New Zealand currency (NZD) and are stated exclusive of Goods and Services Tax (GST), unless indicated to the contrary. Certain numbers included in the tables have been rounded and therefore do not add precisely. Generally references to "year" should be taken as referring to EPIC's financial years ending on 31 March. For example, references to the "2011 year" refer to the financial year ended 31 March 2011.

14. Information sources used in preparing this report are listed at Appendix B.

Yours faithfully
PricewaterhouseCoopers

David Bridgman	Eric Lucas
Partner	Partner

1. Executive Summary

15. This Executive Summary is a summary only, and should be read in conjunction with the balance of our Report, as contained in Sections 2-6.

Issues Facing EPIC

16. Dividend income has declined significantly following the suspension of dividend payments by EPIC's second largest investment, Moto. As a result, EPIC has a negative cash flow with its dividend income being insufficient to cover operating expenses and financing costs, resulting in a shortfall that needs to be funded. In our view, this situation is unlikely to alter for at least another 12 months.

17. EPIC's current borrowing facilities with NAB expire on 30 April 2012. NAB previously sought a $14.0m reduction in the facility which was to be funded by either a capital raising or sale of assets. Neither of these was able to be completed within the required timeframe and instead EPIC was granted a waiver by NAB subject to PGC, the ultimate parent of EPIC's Manager, agreeing to make a payment of $14m to NAB in return for a pro rata participation in the NAB facilities. PGC's support was provided to enable EPIC to undertake an orderly sale process or capital raising, and was not intended to constitute long term funding.

18. Convertible loan notes issued to the Torchlight Fund in March 2011 to fund EPIC's participation in Moto's capital raising were also not intended to provide long term funding. The convertible loan notes have steeply escalating coupon rates every six months to encourage repayment, and therefore need to be repaid or replaced with more appropriate and cost effective long term funding.

19. EPIC's current financial position is not sustainable and the Company will need to take action to address its negative cash flow, the escalating coupon rate on the convertible loan notes, and the impending expiry of its bank loan facilities which must be repaid or renegotiated.

The Proposed Transaction

20. Following a market testing exercise undertaken by MIRA(E)L EPIC has received an expression of interest from an undisclosed international third party investor to divest its largest investment, a 1.24% indirect stake in Thames Water. MIRA(E)L is part of the Macquarie Group and has extensive experience in relation to the operation and management of Thames Water, its investors, and provisions of the Shareholders' Agreements that govern such sales.

21. We have been advised that a non-binding offer has been submitted by a third party investor interested in acquiring a specific minority interest in Thames Water. We are advised that MIRA(E)L is also aware of certain other KWIHL shareholders that are interested in selling their shares at the price indicated by the third party investor and accordingly has offered EPIC the potential opportunity to sell its 1.24% indirect interest in Thames Water as part of this larger transaction. It is expected that EPIC will receive a pro rata proportion of the total price to be paid by the third party investor for its 1.24% indirect shareholding.

22. MIRA(E)L has informed EPIC that a non-binding agreement has been executed with the third party investor confirming the price and total level of shareholding that it is seeking to acquire pursuant to the offer described above. However, as any sale by EPIC, and other existing Thames Water shareholders, is subject to the pre-emption processes pursuant to the Shareholders' Agreements, a binding sale agreement does not exist. The pre-emption processes are expected to take 4 – 6 weeks each once the sale notices have been issued. There is a risk that existing shareholders do not exercise their pre-emptive rights and the third party investor subsequently decides not to proceed or seeks to materially alter the terms. In this event, EPIC would need to find an alternative buyer or accept the revised terms offered.

23. In order to provide a degree of flexibility to cater for potential uncertainty, the Board is seeking Shareholder approval to sell the Company's 1.24% indirect investment in Thames Water at a price no less than £34.0m (the Minimum Price). The Minimum Price reflects the assessed fair value of EPIC's Thames Water shareholding as reported in EPIC's financial statements as at 31 March 2011. The Minimum Price is less than the non-binding offer price that has been negotiated with the new third party investor.

24. Any sale of EPIC's Thames Water shareholding will be subject to:

- Approvals by EPIC shareholders and NAB prior to settlement;
- Compliance with the terms of the Shareholders' Agreements; and
- Execution of a share sale and purchase agreement by the new third party investor following the outcome of the pre-emption processes (assuming EPIC's shares are not acquired pursuant to the pre-emption processes).

25. Assuming the above conditions are met, the Proposed Transaction is expected to be completed by 31 December 2011.

Assessment of Options Available to EPIC

26. There are five options available to consider in relation to the financial issues immediately facing EPIC:

- Do Nothing (or "status quo");
- Renegotiation of Funding;
- Capital Raising;
- Sale of Moto investment; and
- Sale of Thames Water indirect shareholding.

27. Under the status quo, EPIC will be unable to repay the NAB facilities by 30 April 2012 and in our opinion the option of doing nothing is not a viable alternative for the Board.

28. It is unlikely that NAB (or any other bank) would be willing to provide EPIC with long term funding matching the quantum and on similar terms to those it currently has given the level of leverage this would represent, and the fact that the Company has negative operating cash flow and is therefore unable to fully service debt under the status quo. Accordingly, we do not consider that renegotiation of EPIC's debt funding, either with NAB or through alternative providers, is likely to be feasible. EPIC needs to materially reduce its current debt level to reduce financing costs and improve operating cash flow.

29. A capital raising would enable EPIC to repay debt and thereby reduce (or eliminate) its financing costs. A capital raising could take the form of a pro rata rights issue to existing Shareholders and / or a placement to certain existing or new shareholders.

30. In order for EPIC to raise the substantial amount of new capital required, we believe it is likely that a rights issue would need to be priced at a discount, especially given recent Shareholder sentiment together with EPIC's share price performance and illiquidity, to motivate Shareholders to take up their rights. Shareholders who do not elect or are unable to participate would have their ownership position diluted. We believe a placement of shares to existing or new shareholders would also require a discount. Furthermore, EPIC's unlisted status would restrict the ability of certain investors to participate. Accordingly, whilst a capital raising is technically feasible, there are a number of practical and commercial difficulties and Shareholders are at risk of suffering considerable value loss should the Company undertake a discounted rights issue or placement of new capital.

31. A sale of EPIC's 17.49% stake in Moto at around, or in excess of, the current book value of $45m would repay a substantial proportion of EPIC's outstanding net debt. It would also realise an investment that is not currently paying any dividends and we do not expect this to alter in the near term. Moto may even require additional capital from its shareholders, hence there is some attraction in the Company pursuing this option.

32. An informal market sounding resulted in only one offer from a related party for EPIC's 17.49% stake in Moto, received in June 2011. The offer was considered reasonable by the Board in terms of value, however, the offer was structured as a staged transaction with a number of conditions and did not provide the Company with certainty around being able to meet its debt repayment obligations. Following due consideration of the offer, the Board decided to retain EPIC's stake in Moto in favour of seeking a 'cleaner' exit in respect of its stake in Thames Water.

33. Given the timeframe that EPIC must work to in terms of addressing its debt repayment obligation, the fact that it has already attempted to find a purchaser for its Moto stake, and certain restrictions within the Moto shareholders' agreement that affect the saleability of the shareholding, we do not believe that a fresh attempt at realising this investment represents a realistic option for the Company at the present time.

34. We have evaluated the Minimum Price for Thames Water stipulated as part of the Proposed Transaction that Shareholders are being asked to approve relative to recent comparable trading multiples for UK water utilities and comparable recent transaction data for the UK water sector. We have compared the implied enterprise value (EV) relative to Thames Water's regulated capital value (RCV), which is a standard metric used to cross-check the primary discounted cash flow (DCF) valuation approach used in this industry. While noting that this value metric reflects a number of company and transaction specific attributes which need to be considered when comparing multiples (such as RCV growth, regulatory performance, operational efficiencies, and shareholding acquired), the analysis indicates that the EV / RCV multiple implied by the Minimum Price is fair and reasonable.

35. A sale of the Thames Water stake at or above the Minimum Price will enable EPIC to repay most, if not all, of its debt including the Convertible Notes and depending on the sale price actually achieved and the level of debt repaid, may leave the Company in a position where it has surplus funds available.

36. In this eventuality, the Company may be able to consider other infrastructure-related investment opportunities consistent with its updated strategy per the Strategic Review. At present, EPIC is precluded from considering any investment opportunities as it has no financial flexibility.

37. Other options identified for EPIC from the Strategic Review that could be considered following completion of the Proposed Transaction include an internalisation of its management function, which may find favour with investors who are showing a preference for internally managed investment vehicles; as well as the prospect of a partial share buyback that would provide a degree of liquidity for Shareholders. Sale of the Thames Water investment also opens up the prospect that the Company could seek a listing of its shares on the NZX to provide Shareholders with better liquidity.

Conclusions

38. EPIC needs to address its pending debt repayment obligations in the most effective and expedient way possible in order to maximise shareholder value. Failure to address this issue is likely to result in a materially worse outcome for Shareholders and hence the status quo is not a viable option for the Company.

39. Debt markets have changed significantly since EPIC was established. This coupled with EPIC's negative cash flow following Moto's suspension of dividends means that in our assessment EPIC will be unable to secure alternative term debt funding on terms comparable to its existing bank facility.

40. In our opinion, any equity capital raising whether by way of a pro rata rights issue or placement would need to be priced at a discount to the current value of the Company's shares and would be value dilutive for Shareholders unable or unwilling to participate. Accordingly, Shareholders' interests are likely to be best served by realising assets at around their fair value, if achievable.

41. EPIC has two major investments that could be realised in order to materially reduce EPIC's indebtedness – a 17.49% investment in Moto and a 1.24% indirect shareholding in Thames Water. An offer for EPIC's Moto investment was rejected by the Board as it contained a number of conditions and did not provide the required level of certainty of funding ahead of the 30 April 2012 bank repayment deadline. We do not believe it is feasible to commence a fresh attempt to divest the Moto stake at the present time.

42. EPIC is seeking Shareholder approval to sell its 1.24% indirect shareholding in Thames Water for no less than the Minimum Price pursuant to the Proposed Transaction. In our opinion the Minimum Price is fair and reasonable given it reflects EPIC's pro rata share of the 31 March 2011 reported "fair value" for this investment and it is broadly consistent with comparable EV / RCV multiples for other listed UK water utilities and the EV / RCV multiples evidenced by comparable recent transactions in the UK water sector.

43. Accordingly, the Proposed Transaction comprising the sale of EPIC's interest in Thames Water for no less than the Minimum Price is, in our opinion, a reasonable and appropriate course of action given all the circumstances faced by EPIC.

44. Importantly, we note that as at the date of this Report, the Proposed Transaction does not constitute a binding commitment for the sale of the Company's indirect 1.24% shareholding in Thames Water. Consequently, Shareholders need to be aware that even if the Proposed Transaction is approved there is no certainty that it will proceed, and that there will be a sale of the Thames Water stake at, or in excess of, the Minimum Price. However, we believe that the Company's pursuit of this transaction represents the best course of action open to it, given all the circumstances confronting EPIC.

45. In the event that the Proposed Transaction does not proceed, then the Company will have less than five months before expiry of its debt facilities in order to find an alternative solution. In our view, this would be a near untenable position for the Directors, given they have already explored the feasible options. The Board would have little alternative but to consider some form of discounted capital raising, which in all likelihood would transfer a substantial ownership position and control of EPIC to the new capital provider(s). This would in effect, be equivalent to existing investors selling a substantial proportion of their indirect participation in Thames Water and Moto. However, we believe the outcome for Shareholders is likely to be materially worse in this eventuality, given the pressure that the Company would be under due to the pending debt maturity, which would manifest itself in a significant value transfer from the Shareholders to the new investors providing the fresh capital.

2. Overview of EPIC

Background

46. EPIC is a New Zealand incorporated company that was established in 2007 to invest in infrastructure assets and entities that own or operate infrastructure assets.

47. EPIC undertook an initial public offering (IPO) in June 2007, issuing 94.7m fully paid ordinary shares at $1.00 per share. The proceeds of the IPO were primarily used to purchase shares in Thames Water from Macquarie Water, a member of the Macquarie Group. EPIC subsequently made one other substantial investment in Moto, a UK motorway service operator, and has also made two other much smaller investments in UK infrastructure-related companies.

48. EPIC's investment strategy, as set out in the IPO Prospectus, is to identify and acquire interests in high quality and high yielding infrastructure assets that meet the following criteria:

- the investment must be reasonably expected to add shareholder value, by being yield accretive and / or by increasing the potential for capital gains;
- the investment must be an infrastructure asset (or exhibit the characteristics of an infrastructure asset);
- the investment must be in OECD or OECD-like countries;
- the investment should preferably operate in a clearly defined and transparent regulatory environment; and
- EPIC should preferably invest as a co-investor alongside at least one other major infrastructure investor, and the asset must have a manager with appropriate expertise.

49. The investment in EPIC was originally promoted as a 'yield' investment. At the time of its IPO EPIC expected to pay Shareholders quarterly dividends with an initial forecast dividend yield of 9.1%.

Management Agreement and Relationship with Pyne Gould Corporation

50. EPIC's executive and investment management is outsourced to Equity Partners Infrastructure Management (EPIM or the Manager). EPIM is a wholly-owned subsidiary of Equity Partners Asset Management (EPAM). EPAM is owned by Torchlight Investment Group Limited (Torchlight Investment Group) which in turn is owned through a wholly-owned subsidiary by NZX-listed Pyne Gould Corporation Limited (PGC).

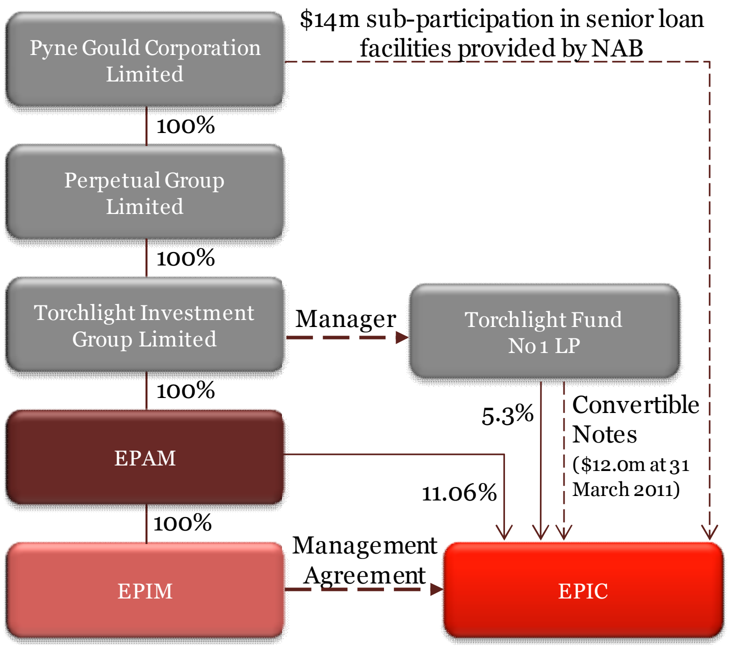
51. Under the management agreement between EPIC and EPIM (the Management Agreement), EPIM is responsible for:

- attending to EPIC's day to day activities, such as preparing financial information, investor communications, coordinating payment of dividends, and ensuring compliance with applicable regulatory requirements; and
- managing EPIC's investments, such as implementing EPIC's investment strategy and managing EPIC's debt levels, currency exposures and cash flows.

52. EPIM receives a management fee calculated as 1.00% p.a. of the gross asset value of EPIC, payable monthly in arrears. EPIM is entitled to a transaction fee of 1.00% of the price paid for any assets acquired by EPIC following the original Thames Water investment. A performance fee is also payable in relation to EPIC's second major investment, Moto – refer below for more details. No performance fee is payable to EPIM in respect of EPIC's other investments.

53. EPAM is the largest shareholder in EPIC with an 11.06% interest. An associated entity, Torchlight Fund No 1 LP (Torchlight) – a fund managed by EPAM's parent, Torchlight Investment Group, holds a further 5.3% of the shares as well as $12.0m of convertible loan notes that were issued to enable EPIC to participate in a capital raising undertaken by Moto. In July 2011 PGC supported EPIC's National Australia Bank (NAB) bank facility negotiations via a $14.0m sub-participation in the facility. Refer below for more detail.

54. The chart below illustrates the structure of EPIC's Manager and relationship with PGC:



Source: EPIC Investment Prospectus 2007, NZ Companies Office, EPIC Management

Governance

55. The EPIC Board of Directors comprises two non-executive independent directors, Margaret Devlin (Chair) and Brian Harrison, and one non-executive non-independent director, John Duncan. John Duncan is also a director of EPIM, Torchlight Investment Group and PGC. EPIC's constitution requires EPIC have a majority of directors who are independent of EPIM.

56. The Board is responsible for the overall direction of EPIC and corporate governance of the Company. The Board's specific responsibilities include: defining the Company's objectives, strategy and policy framework; the supervision of EPIM's performance as manager; annual asset valuations; fees paid to the Manager; dividend policy; regulatory reporting; and asset acquisitions and disposals.

Investments

57. EPIC currently has two major investments:

- An indirect 1.24% shareholding in Thames Water, the UK's largest supplier of water and provider of wastewater services; and
- A 17.49% shareholding in Moto, a motorway and trunk road service area operator in the UK.

58. EPIC also has two smaller investments in:

- Arqiva, a UK based broadcast and transmission service provider; and
- Wales & West Utilities Limited, a UK based gas network provider.

59. The table below sets out the total investment cost and reported book value of EPIC's investments as at 31 March 2011, in both GBP (currency in which all investments are denominated) and NZD:

Investments

Company	Date of Original Investment	Share-holding	Total Investment (£m)[1]	Book value at 31 Mar 2011 (£m)[2]	Movement in £ value	Total Investment (NZDm)[1]	Book Value at 31 Mar 11 (NZDm)[2]	Movement in NZD value
Thames Water	May-07	1.24%	33.01	34.18	3.6%	90.03	72.15	(19.9%)
Arqiva[3]	Sep-08	0.07%	1.45	1.40	(3.4%)	3.94	2.95	(25.0%)
Wales & West[4]	Sep-08	0.10%	0.64	0.53	(17.5%)	1.87	1.12	(40.3%)
Moto	Jun-09	17.49%	26.86	n.m.[5]	n.m.	67.66	44.60	(34.1%)
Total			**61.96**	**36.11**		**163.49**	**120.82**	

Notes

1. Including transaction costs

2. NZD:GBP FX rate of 0.4737 used

3. EPIC has a beneficial interest in 460,504 shares and 460,504 loan notes in Macquarie UK Broadcast Holdings Limited, the ultimate holding company of Arqiva

4. EPIC has a beneficial interest in 283,186 shares and 94,396 loan notes in MGN Gas Networks (UK) Limited, the ultimate holding company of Wales & West Utilities Limited

5. Not meaningful (n.m) due to book value reported in EPIC's FY11 Annual Report reflecting equity method of accounting (initial cost in NZD, share of loss / gain and losses arising on translation). Accordingly GBP converted figure is not meaningful.

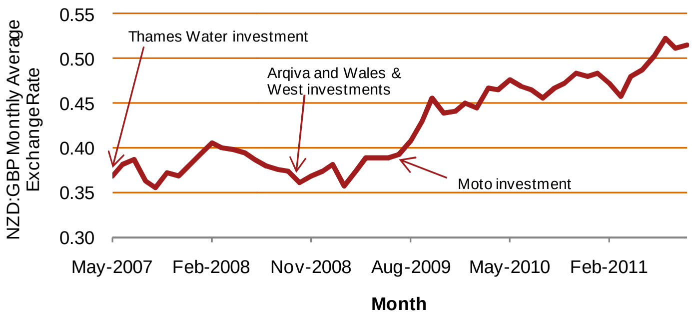
Source: EPIC Management, EPIC Annual Financial Report for FY11

60. The reported book values of EPIC's investment in Thames Water, Arqiva and Wales & West as at 31 March 2011 reflect their assessed "fair values" as the carrying value of these investments has been marked to market. These values are based on a discounted cash flow (DCF) valuation methodology.

61. As shown above, the assessed fair value of Thames Water as at 31 March 2011 was 3.6% above the total investment cost of £33.0m. However, due to the appreciating NZD relative to the GBP since the initial investment date, the translated NZD value as at 31 March 2011 has declined by 19.9%. Refer Section 4 for commentary on Thames Water's financial performance and outlook.

62. The NZD value of EPIC's three other investments has also been adversely impacted by the appreciating NZD. The chart below illustrates the movement in the NZD:GBP exchange rate since May 2007 and shows the significant appreciation in the NZD from June 2009 – the date of EPIC's original investment in Moto (NZD:GBP up approximately 30%).

NZD:GBP Exchange Rate from May 2007 to the present



Source: RBNZ Historical Exchange Rates Data, EPIC Management

63. We understand that in response to debt market conditions, the Arqiva board decided that it was prudent to suspend distributions in order to reduce its debt level. We have been advised that distributions are not expected to be reinstated until the refinancing has been completed successfully. The fair value of EPIC's investment in Arqiva has been marked down since acquisition, partly reflecting this voluntary deleveraging.

64. Wales & West has outperformed the regulatory allowances over the past three years. However, the company suspended dividend payments for a period until it had implemented a securitisation structure in March 2010. The fair value of EPIC's investment has been marked down due to a reduction in gearing of approximately 12% compared to the original base case.

65. The reported book value of Moto reflects the equity method of accounting and is recorded at cost (including additional investment) adjusted for gains and losses, including foreign currency translation, since the original investment. Accordingly the reported book value of EPIC's Moto investment does not necessarily reflect its assessed fair value. The equity method is used given EPIC has the right to appoint one of up to five directors for Moto, and is therefore in a position where it is able to exert "significant influence" over Moto.

66. Since EPIC's initial investment in June 2009, Moto's financial performance has been strong. Moto's EBITDA has increased by 23.1% and 14.7% in the last two financial years ended 31 December respectively, exceeding its budget targets. However, Moto's previous debt facilities were due to expire in June 2011, and Moto was unable to renew these facilities on terms similar to those originally negotiated, largely due to credit markets requiring more conservative funding structures.

67. In September 2010, Moto announced that it was suspending dividend payments in order to focus on debt reduction and its growth strategy. In March 2011, Moto undertook a recapitalisation which included a capital injection from shareholders to help repay a portion of outstanding debt. EPIC participated in this recapitalisation, investing a further $11.7m in order to maintain its 17.49% shareholding and thereby avoid dilution and potential loss of its right to appoint a director. Moto's debt facilities were successfully refinanced in March 2011 and currently comprise a £400m senior debt facility which expires in March 2016 and a £176m of bond which pay a 10.25% coupon and which is due for repayment in March 2017.

Financial Position

68. EPIC's financial position for the previous three financial years is set out below:

Statement of Financial Position

As at 31 March NZD 000s	2009	2010	2011
Cash and cash equivalents	1,385	895	889
Other current assets	3,351	561	372
Total current assets	**4,736**	**1,456**	**1,261**
Investments	96,123	95,609	76,223
Investment in associate	-	39,981	44,601
Other non-current assets	5,029	2,156	218
Total non-current assets	**101,152**	**137,746**	**121,042**
Total assets	**105,888**	**139,202**	**122,303**
Derivative financial liabilities	9,445	6,668	-
Bank loans	9,350	13,439	7,753
Moto performance fee	-	3,531	3,531
Other current liabilities	2,725	3,581	2,192
Total current liabilities	**21,520**	**27,219**	**13,476**
Bank loans	-	31,621	38,998
Convertible loan notes	-	-	12,300
Derivative financial liabilities	9,049	79	-
Total non-current liabilities	**9,049**	**31,700**	**51,298**
Total liabilities	**30,569**	**58,919**	**64,774**
Issued capital	88,192	114,359	121,076
Retained earnings / (Accumulated losses) and other adjustments	(12,873)	(34,076)	(63,547)
Total Equity	**75,319**	**80,283**	**57,529**
Number of issued shares (m)	*95.1*	*128.0*	*135.7*
Net tangible assets (NTA) per Share ($)	*0.79*	*0.63*	*0.42*
Net Debt	*7,965*	*44,165*	*58,162*
Net Debt / Net Debt + Equity	*9.6%*	*35.5%*	*50.3%*

Source: EPIC Annual Financial Report for FY09, FY10 and FY11, PwC Analysis

69. We note the following regarding EPIC's financial position:

- Investments were recorded at cost in FY09 and FY10. In FY11 investments were recorded on a fair value basis, as discussed above.
- Investment in associate (Moto) is recorded using the equity method of accounting (i.e. original cost adjusted for gains and losses, including foreign currency translation, since acquisition) given EPIC has significant influence through the ability to appoint a director.
- Derivative financial liabilities relate to foreign exchange (FX) hedging contracts. EPIC terminated all FX hedging contracts in January 2011.
- Moto performance fee relates to the fee potentially payable to EPIM based on the internal rate of return (IRR) achieved on the investment. The performance fee only becomes payable upon the realisation of the investment, change of control, change of manager, IPO, or failing any of these events on 20 June 2019. The reported fee has been based on EPIC management's (Management) assessed fair value of Moto.
- Bank loans relate to secured debt facilities provided by NAB. These facilities were renegotiated in June 2011. (Refer below)

- Convertible loan notes comprise $12.0m of unsecured subordinated convertible loan notes issued to Torchlight plus related transaction costs of $0.3m.

- Issued capital has increased as a result of several capital raisings undertaken to fund investments. This is discussed further below.

- Net tangible assets (NTA) per share has declined from $0.79 at 31 March 2009 to $0.42 at 31 March 2011.

70. EPIC's facility agreement with NAB originally required partial repayment of the Company's bank loans by 30 April 2011. This obligation was waived by NAB subject to a restructuring of the facility which involved EPIC making a repayment of $14.0m by 30 June 2011 and the balance of the facility was extended to 30 April 2012.

71. The $14.0m repayment to NAB was originally expected to be funded via an equity raising or asset sales. However neither of these options was able to be completed by the 30 June 2011 repayment date. PGC agreed to provide assistance in order for EPIC to continue an orderly sale process which was expected to maximise shareholder value. Accordingly, PGC agreed to take a sub-participation in the NAB facility, which required PGC to make a payment of $14.0m to NAB in return for an entitlement to receive a pro rata portion of the interest and fees paid by EPIC to NAB. PGC's participation required a waiver from NZX given EPIC and PGC were related parties. In effect, PGC repaid $14.0m to NAB and became a co-lender to EPIC.

72. The bank facility agreement was amended on 8 July 2011 to reflect PGC's sub-participation, and a new limit was set for the facilities comprising $3.0m for Facility A (working capital facility) and $48.7m for Facility B. Both facilities have a termination date of 30 April 2012. PGC's participation will not be renewed, nor the term of the facility otherwise extended, beyond 30 April 2012, without the approval of ordinary shareholders of PGC pursuant to NZX Listing Rule 9.2.1 (provided PGC remains listed).

73. The convertible loan notes were issued to Torchlight to raise funding to enable EPIC to participate in Moto's March 2011 recapitalisation. The notes were not intended to provide long term funding, and this is reflected in the coupon rates which apply. The coupon rate for the first 6 months was 15%, and this increased to 20% in September 2011 and is set to increase by 5% every 180 days thereafter. Torchlight only has the option to convert the loan notes at $0.90 per share if EPIC is placed in liquidation or is wound up. Given the 31 March 2011 NTA per share of $0.42 and EPIC's prevailing share price which is below $0.50, even if Torchlight was able to exercise its conversion option, the loan notes are unlikely to be converted given current circumstances. Accordingly, given the steeply increasing coupon rates this funding will need to be repaid or replaced with more appropriate and cost effective long term funding.

74. As at 30 September 2011, EPIC's net debt had risen to $60.3m, comprising bank debt of $48.8m, convertible loan notes of $13.2m, less cash and cash equivalents of $1.7m. The increase in the convertible loan notes balance from 31 March 2011 represents additional notes issued in respect of the accrued interest on the notes, which is being capitalised and not paid in cash.

Cash Flow

75. EPIC's statement of cash flows for the previous three financial years is set out below:

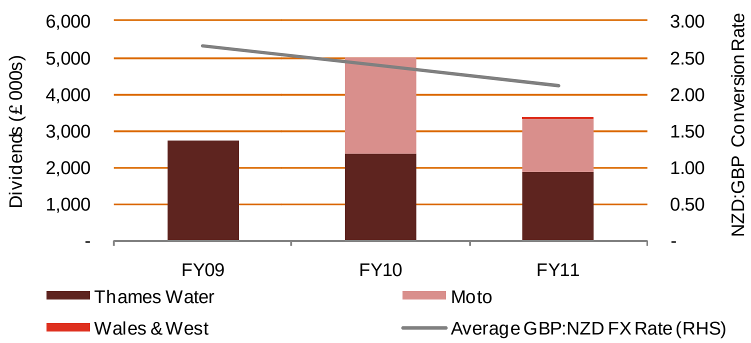
Statement of Cash Flows

For years ended 31 March NZD 000s	FY09	FY10	FY11
Dividends received	7,214	11,944	6,904
Operating expenses paid	(2,496)	(2,012)	(2,065)
Financing costs	(359)	(3,242)	(3,858)
Realised foreign exchange loss	(16)	(9,685)	(4,281)
Other operating activities	856	339	209
Net cash generated from operating activities	**5,199**	**(2,656)**	**(3,091)**
Proceeds from liquidation of foreign exchange contracts	2,667	-	-
Acquisition of investments	(7,761)	(55,451)	(11,566)
Net cash used in investing activities	**(5,094)**	**(55,451)**	**(11,566)**
Net proceeds from equity raising	-	25,310	6,451
Net movement in borrowings	6,850	42,066	13,446
Dividends paid to shareholders	(8,282)	(9,279)	(5,367)
Net cash received / (used) in financing activities	**(1,432)**	**58,097**	**14,530**
Decrease in cash and cash equivalents	**(1,327)**	**(10)**	**(127)**

Source: EPIC Annual Financial Reports for FY09, FY10 and FY11

76. Dividend income fell by 42.2% in FY11. As shown in the chart below, this was due to a drop in dividends from Thames Water and Moto, which are denominated in GBP, as well as further weakening in the NZD:GBP exchange rate.

Dividend Income Received from EPIC's Investments



Source: EPIC Management

77. Thames Water's dividend reduced in FY11 due to a fall in profitability and the company's decision to reduce leverage ahead of the refinance of holding company debt. The long term outlook for Thames Water is positive provided it can continue to meet its regulatory obligations – refer Section 4 for more information. EPIC is expecting an interim dividend payment in December 2011 from Thames Water of approximately £1.2m, which is 33% higher than the prior year dividend.

78. As discussed above, Moto suspended dividend payments in September 2011. Although it is unclear when payments will resume, we believe that this is unlikely to be in the near term. As previously discussed Wales & West reinstated dividend payments in FY11 and Arqiva has suspended dividends and is not expected to reinstate dividend payments until at least 2013.

79. EPIC's FY12 dividend income is therefore expected to fall significantly compared to FY11 following Moto's suspension of dividend payments. EPIC's dividend income will thereafter be insufficient to cover operating expenses and interest unless these expenses, especially interest payments, can be reduced.

Capital Raisings and Share Trading History

80. Since its IPO in 2007 which raised $94.7m (gross proceeds), EPIC has undertaken two further equity raisings in October 2009 and September 2010. EPIC also established a dividend reinvestment plan (DRP) in July 2010 that enabled Shareholders to elect to receive additional shares in the Company in lieu of receiving cash dividend payments.

81. The table below summarises EPIC's equity capital raisings and shares issued under the DRP:

Capital Raisings and Share Issues

Date	Description	No. of shares issued (m)	Price per Share (NZD)	Capital raised[1] (NZDm)
Jun-07	Initial public offering	94.7	1.00	87.8
FY09	Dividend reinvestment plan	0.3	1.00	0.3
Oct-09	Rights issue	32.0	0.90	25.3
FY10	Dividend reinvestment plan	0.9	0.90	0.9
Sep-10	Issue of shares to Torchlight	7.2	0.90	6.3
FY11	Dividend reinvestment plan	0.5	0.90	0.5
Total		**135.7**		**121.1**

Notes

1. Net of share issue costs

Source: EPIC Management, EPIC Annual Financial Reports for FY09, FY10 and FY11

82. We note the following regarding the above table:

- The October 2009 rights issue raised capital that was used to help fund the Moto acquisition (in addition to using debt facilities); and

- The September 2010 equity placement to Torchlight was used to help make the required partial repayment of EPIC's NAB facilities. This payment was originally expected to be covered by Moto's September 2010 dividend, however, following Moto's decision to suspend dividends EPIC was required to find alternative means of funding. As part of this placement, Torchlight was granted the option to acquire up to 19.99% of the Company's shares at $0.90 per share. This option has since been extended to 31 December 2011. The option can be exercised at any time. However, given EPIC's current NTA per share, prevailing share price and uncertainty surrounding the Company's funding, we believe it is unlikely that Torchlight will take up this option.

83. As at 30 September 2011 EPIC had 1,659 Shareholders. The table below sets out the breakdown of EPIC Shareholders split by shareholding size:

EPIC Shareholder Breakdown as at 30 September 2011

Shareholding Range	Holder Count	Holder Count %	Holding Quantity	Holding Quantity %
1 - 9,999	298	17.96%	1,849,865	1.36%
10,000 - 49,999	934	56.30%	19,417,582	14.31%
50,000 - 99,999	234	14.10%	14,295,570	10.54%
100,000 - 499,999	170	10.25%	28,119,722	20.72%
500,000 - 999,999	11	0.66%	6,789,493	5.00%
1,000,000 +	12	0.72%	65,212,577	48.06%
Total	**1,659**	**100.00%**	**135,684,809**	**100.00%**

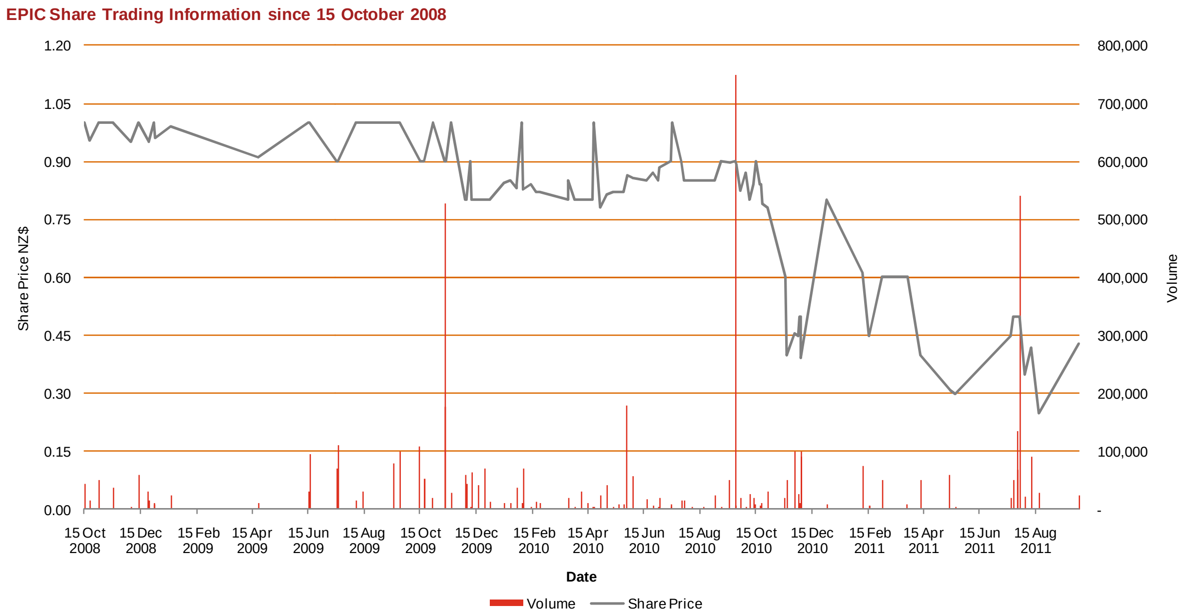
Source: EPIC Management, Computershare

84. Shareholders holding more than 1 million shares largely relate to custodial holdings. EPAM and Torchlight are the two largest individual shareholders, holding 11.06% and 5.32% of EPIC's shares respectively.

pwc

85. EPIC shares are not listed on the NZX but are currently traded through two other platforms – Macquarie and Sharemart. The shares trade infrequently, with the average volume on days when shares are traded being approximately 51,000 shares. The shares last traded at $0.43 on 30 September 2011 and have only traded on four days out of the last 90 days. The Board has considered a listing on the NZX to improve liquidity and price consistency, given material differences in prices sometimes achieved on the different platforms. This would require approval from Macquarie Infrastructure Funds Management Limited (MIFML), as EPIC is currently prohibited from seeking a listing on any stock exchange under the terms of the Thames Water share purchase agreement.

86. The following graph illustrates EPIC's share price movements and trading volumes since 15 October 2008 (the earliest electronic share transfer recorded) based on Macquarie and Sharemart data:



Source: Sharemart and Computershare Trade Data, EPIC Management

87. EPIC's shares traded in a relatively narrow band between $0.78 to $1.00 up to October 2010, when EPIC announced it was suspending dividend payments following Moto's suspension of dividend payments. Over the past six months EPIC's shares have traded at much lower levels, between a high of $0.50 and a low of $0.25 per share. Assuming a current share price of approximately $0.43 (which approximates NTA of $0.42), the Company has a current market capitalisation of approximately $58m.

88. The spikes in traded volume in November 2009 and October 2010 occurred around the time of the rights issue and announcement of the suspension of EPIC dividends respectively. Volumes increased again in July 2011 following announcement of EPIC's bank facility renegotiation and the progress being made on proposed asset sales.

Issues Facing EPIC

89. The immediate financial issues confronting EPIC can be summarised as follows:

- NAB facilities (including the PGC sub-participation) expire on 30 April 2012 and it will be difficult to extend these;

- Convertible bonds issued to Torchlight were intended to provide short term funding only, with the coupon rate currently 20% and rising by 5% every six months to encourage repayment; and

- Negative operating cash flow with dividend income being insufficient to cover operating expenses and financing costs.

90. PGC's support was needed to extend the existing NAB facilities in June 2011, as discussed above. This is not a sustainable position and management advise that NAB has requested full repayment by 30 April 2012.

Strategic Review

91. As a result of the above issues, the Board announced in October 2010 that it was undertaking a Strategic Review. The objectives of the Strategic Review were to:

- Improve operating cash flow;
- Reduce leverage;
- Provide yield;
- Provide shareholder liquidity;
- Minimise FX risk; and
- Maximise shareholder value.

92. The Board reported to Shareholders on the outcome of the Strategic Review in March 2011. The Board's key conclusion was that EPIC should realise one of its principal investments (i.e. Thames Water or Moto) provided fair value could be achieved, with the primary focus being on Thames Water given the recent increase in investor interest in the UK water sector and expectation of limited buyer interest for Moto at this stage. This would enable EPIC to repay all or a substantial proportion of its outstanding debt obligations, reduce management fees payable (as a result of a lower asset base), and potentially provide surplus cash for a potential share buyback or acquisition of other higher yielding assets (depending on the extent of debt repayment).

93. Other matters considered during the Strategic Review included options to improve liquidity for Shareholders and potential internalisation of the management arrangements. These matters were to be explored in more detail following satisfactory resolution of EPIC's debt position.

94. Following the Strategic Review, EPIC initiated a market testing exercise for Thames Water.

3. The Proposed Transaction

Introduction

95. In July 2011, EPIC engaged Macquarie Infrastructure and Real Assets (Europe) Limited (MIRA(E)L), part of the Macquarie Group, to undertake a market testing exercise in respect of EPIC's interest in Thames Water.

96. The process has been carefully managed to ensure that the pre-emptive rights applicable to EPIC's Thames Water holding (discussed further below) are not triggered until there is a level of certainty around the prospect of a transaction proceeding.

97. In October 2011, MIRA(E)L notified EPIC that it had identified an opportunity for EPIC to sell its interest in Thames Water, resulting in the Proposed Transaction. A summary of the sale process and Proposed Transaction is provided below.

Sale Process

98. As discussed further in Section 4, EPIC holds 2.52% of the shares in Kemble Water International Holdings Limited (KWIHL), which in turn is the holder of 49.27% of Kemble Water Holdings Limited (KWHL). Therefore, EPIC has a 1.24% effective interest in KWHL, which owns 100% of the equity in Thames Water through various wholly owned subsidiaries.

99. Both the KWIHL Shareholders' Agreement (KWIHL SHA) and KWHL Shareholders' Agreement (KWHL SHA) (together the Shareholders' Agreements) contain pre-emptive rights which grant KWIHL and KWHL shareholders rights of first refusal for any sale of KWIHL and KWHL shares. In other words, if EPIC wishes to sell its Thames Water investment, the Company must first offer its interest to other shareholders, which is fairly common for consortium-style investments of this nature. The Shareholders' Agreements set out a process and timetable for KWIHL and KWHL shareholders to consider and if desired, exercise their pre-emptive rights.

100. If the KWIHL and KWHL shareholders do not exercise their pre-emptive rights, then EPIC is able to sell its interest to another party at a price no less and on terms no less favourable than those offered to existing shareholders pursuant to the pre-emption processes.

The Proposed Transaction

101. We have been advised a non-binding offer has been submitted by a new third party investor interested in acquiring a specific minority interest in Thames Water. We understand that MIRA(E)L is also aware of certain other KWIHL shareholders that are interested in selling their shares at the price indicated by the new investor and accordingly has offered EPIC the potential opportunity to sell its 1.24% indirect interest in Thames Water as part of this larger transaction. It is expected that EPIC will receive a pro rata proportion of the total price to be paid by the new investor for its 1.24% indirect shareholding.

102. MIRA(E)L have informed EPIC that a non-binding agreement has been executed with the third party investor confirming the price and total level of shareholding that it is seeking to acquire pursuant to the offer described above. However, as any sale by EPIC, and other existing Thames Water shareholders, is subject to the pre-emption processes pursuant to the Shareholders' Agreements, a binding sale agreement does not exist. The pre-emption processes are expected to take 4 – 6 weeks each once the sale notices have been issued.

103. There is a risk that shareholders do not exercise their pre-emptive rights and the third party investor subsequently decides either not to proceed with the expected offer or seeks to materially alter the terms. In this event, EPIC would need to find an alternative buyer or accept the revised terms offered.

104. In order to provide a degree of flexibility to cater for potential uncertainty, the Board is seeking EPIC Shareholder approval to sell the Company's 1.24% indirect investment in Thames Water at a price no less than £34.0m (the Minimum Price). The Minimum Price reflects the assessed fair value of EPIC's Thames Water shareholding as reported in EPIC's financial statements as at 31 March 2011. The Minimum Price is less than the non-binding offer price that is under negotiation with the new investor.

105. Any sale of EPIC's Thames Water shareholding will be subject to:

- Approvals by EPIC shareholders and NAB prior to settlement;
- Compliance with the terms of the Shareholders' Agreements; and
- Execution of a share sale and purchase agreement by the third party investor following the outcome of the pre-emption processes (assuming EPIC's shares are not acquired pursuant to the pre-emption processes).

106. Assuming the above conditions are met, the Proposed Transaction is expected to be completed by 31 December 2011.

107. The prospective new investor in Thames Water is unwilling for its identity to be revealed prior to the conclusion of the pre-emption processes to avoid public knowledge of its identity and intentions should its interest not result in a transaction as a result of pre-emptive rights being exercised, or for some other reason.

108. As part of any sale transaction, there is a performance fee obligation payable by EPIC to MIRA(E)L in accordance with the Investor Services Agreement (dated 2007), contingent on the internal rate of return (IRR) achieved in respect of this investment, as determined by the price achieved on sale. However, EPIC Management have advised us that in their view the amount payable in respect of the Minimum Price is zero. As at the date of this Report, we have been advised that the terms and calculation of the performance fee payable to MIRA(E)L are being disputed. We understand that the estimated likely outcome of the dispute is that EPIC will be required to pay MIRA(E)L a performance fee of between zero and £3.2m based on the Minimum Price.

109. In addition, the EPIC Board has agreed to pay a transaction fee to EPIM calculated as 1.75% of the gross GBP proceeds, or approximately £0.6m based on the Minimum Price. Legal and other transaction costs will also be payable.

110. The below table sets out the expected net proceeds to EPIC assuming the Proposed Transaction proceeds at the Minimum Price:

Net proceeds[1]	£m	NZDm[2]
Minimum Price	34.0	66.8
less: MIRA performance fee	0 - (3.2)	0 - (6.2)
less: EPIM transaction fee	(0.6)	(1.2)
less: Estimated transaction costs	(0.3)	(0.7)
Net proceeds to EPIC	**29.9 - 33.1**	**58.7 - 65.0**

Notes

1. Assuming completion of the Proposed Transaction at 30 November 2011.

2. NZD:GBP FX rate of 0.5090.

Source: EPIC Management

111. It is important that Shareholders note that although they are being asked to approve the Proposed Transaction, there is in fact currently no binding offer to purchase EPIC's 1.24% indirect shareholding in Thames Water. Accordingly, it is possible that notwithstanding Shareholder approval for the Proposed Transaction, a transaction may not eventuate.

4. Overview of Thames Water

Background

112. Thames Water, through its wholly-owned subsidiary Thames Water Utilities Limited (TWUL), is the largest supplier of water and provider of wastewater services in the UK. TWUL serves 14 million customers across Greater London and the Thames Valley.

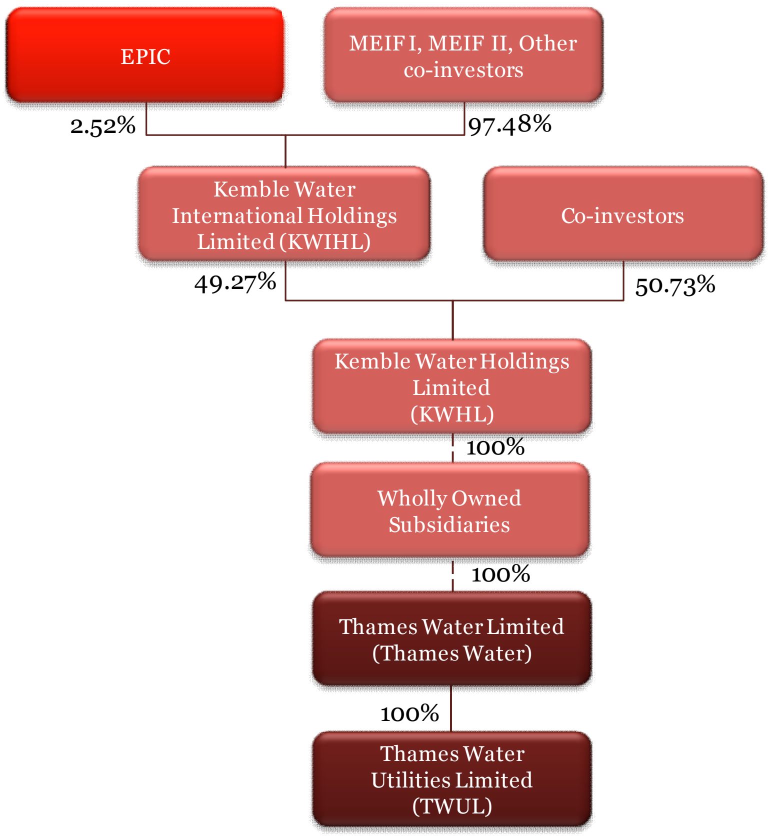
113. TWUL was listed on the London Stock Exchange in 1989 as part of the UK Government's privatisation of the water sector in England and Wales. The listed parent company, Thames Water PLC, was subsequently acquired by German infrastructure company RWE AG in 2001.

Acquisition by Consortium

114. In December 2006, a consortium led by Macquarie European Infrastructure Fund LP (MEIF I) and Macquarie European Infrastructure Fund II (MEIF II) acquired Thames Water PLC from RWE AG.

115. The consortium established a UK incorporated parent company, Kemble Water Holdings Limited (KWHL), as an investment vehicle through which all equity investors could participate. KWHL holds 100% of the equity capital of Thames Water through a chain of wholly-owned subsidiaries, some of which have issued debt obligations to external financiers.

116. A summarised investment structure diagram is provided below:



Source: Thames Water Bond Prospectus June 2011, EPIC Management

117. As shown above, EPIC holds a 2.52% shareholding in KWIHL reflecting a 1.24% indirect holding in KWHL, the ultimate parent of Thames Water. Other Co-Investors comprise MIEF I, MIEF II, certain other Macquarie-managed funds (all held through KWIHL) and various non-Macquarie investors made up largely of pension funds and other institutional investors from Europe, Canada, and Australia.

118. Shareholders in both KWIHL and KWHL are governed by the provisions contained in confidential Shareholders' Agreements which stipulate, inter alia, the pre-emptive rights which apply in circumstances where a shareholder wishes to sell its shareholding, as discussed in Section 3.

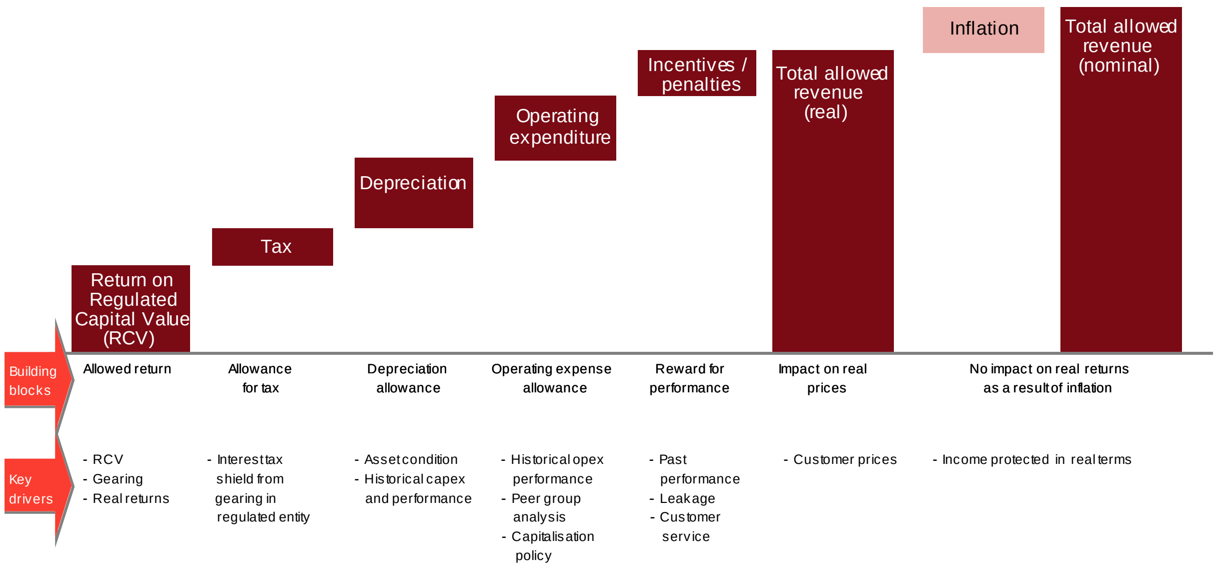
119. TWUL, the regulated water and wastewater company, is the principal operating company and accounts for approximately 99% of the value of Thames Water (refer below). TWUL's annual report and financial statements are released to the public and have been referred to in this Report. We have had access to this and other non-public information provided periodically to EPIC management by KWHL to help us form our opinion on the Proposed Transaction. This includes KWHL investor reports, management reports, and other presentations.

Regulatory Framework

120. TWUL is one of ten companies providing both water and wastewater services in England and Wales. Each company has a regional monopoly for their services based on boundaries determined when the sector was privatised in 1989. Refer Appendix C for a map of TWUL's clean water and wastewater boundaries.

121. The Water Services Regulation Authority (Ofwat) is the economic regulator for the sector. It determines the prices the companies can charge for the provision of water and wastewater services under a 5 year Asset Management Plan (AMP) agreed with each company. Price limits were last set by Ofwat in 2009 based on business plans submitted by each company for the period 1 April 2010 to 31 March 2015 (known as "AMP5").

122. In order to set price limits, Ofwat determines revenue requirements for each company using a building blocks approach. This is summarised in the chart below:



Source: Ofwat

123. Essentially, the price limits set by Ofwat allow water and wastewater companies to finance:

- depreciation of assets;
- operating expenditure;
- tax; and
- a fair return on capital.

124. A fair return on capital is calculated based on a fixed return on Regulated Capital Value (RCV). The allowed rate of return on RCV is set by Ofwat for each 5 year regulatory period and applied consistently across all water and wastewater companies in England and Wales. Information on RCV is provided below. The other building blocks are company specific and are determined by Ofwat for each year following a transparent process of consultation with each company, including rewards or penalties relating to the company's performance across a range of service indicators (e.g. water leakages, customer service).

125. Once the price limits are set there is limited scope to vary prices.

Regulated Capital Value (RCV)

126. RCV is the capital base used by Ofwat for the purpose of setting price limits. It is a fundamental component of the price setting process and is used to determine the "allowed return".

127. Ofwat provides specific guidance on how RCV is calculated. The table below sets out the movement in TWUL's RCV over the past three financial years:

Movement of Thames Water's RCV for years ended 31 March

£m	2009	2010	2011
Opening RCV	6,990	7,180	7,721
Price review opening adjustments	-	-	182
Indexation to year end	(26)	319	423
Opening RCV at year end prices	**6,964**	**7,499**	**8,326**
Capital expenditure[1]	646	670	960
Infrastructure renewals expenditure	115	125	142
Grants and contributions	(41)	(44)	(19)
Depreciation	(356)	(374)	(372)
Infrastructure renewals charge	(103)	(108)	(141)
Out performance of past regulatory assumptions	(45)	(47)	(47)
Closing RCV	**7,180**	**7,721**	**8,849**
Growth		*7.5%*	*14.6%*

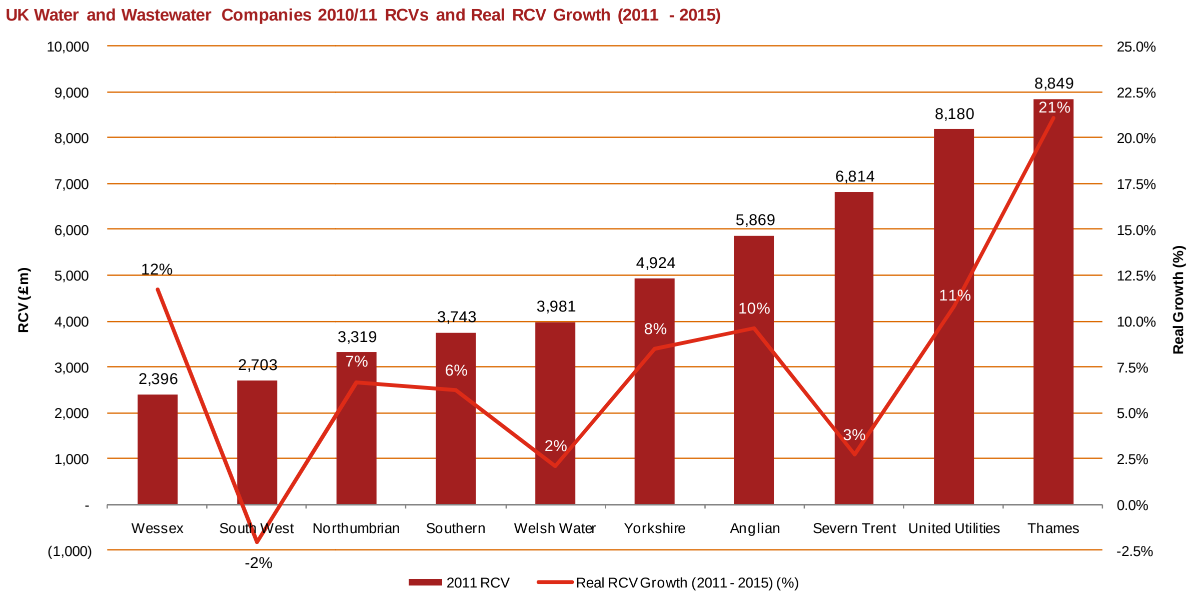
Notes

1. Excluding infrastructure renewals expenditure

Source: Thames Water Utilities Limited FY09, FY10 and FY11 Financial Statements

128. TWUL's RCV has grown significantly over recent years. Capex over each AMP period is agreed with the regulator based on an assessment of works that need to be undertaken. TWUL is required by Ofwat to deliver an investment programme of nearly £5.0 billion over the current five year regulatory period (AMP5), which largely reflects the Victorian Mains replacement, upgrades and expansion of the sewerage treatment works, Lee Tunnel and metering.

129. The chart below shows TWUL's March 2011 RCV and real growth in RCV over AMP5 as agreed with Ofwat. The same data for the other 9 water and wastewater companies is also provided.



Source: Ofwat RD 04/10: Regulatory capital values 2010-15
Note: RCVs are based on 2010/11 prices

130. TWUL has not only the highest RCV at March 2011, but also the highest planned growth in RCV over the next four years. Based on its investment programme agreed with Ofwat under AMP5, TWUL's real RCV will grow to £10,714m from March 2011 to March 2015, an increase of 21% in real terms. TWUL's real RCV growth for the entire AMP5 period (2010 – 2015) is 28.7%. As discussed above, this reflects the state of TWUL's water and wastewater network and also investment required to support expected population growth in TWUL's boundary area.

131. As discussed above, as RCV is one of the key variables used by Ofwat in setting prices, TWUL will be able to generate a return up to the regulated level on this investment.

Financial Performance and Position

132. A summary of TWUL's financial performance for the previous three financial years is set out below:

Summary Financial Performance
For years ended 31 March

£m	FY09	FY10	FY11
Turnover	**1,558**	**1,624**	**1,623**
Growth	*4.7%*	*4.2%*	*0.0%*
EBIT[1]	**605**	**671**	**600**
EBIT margin	*38.8%*	*41.3%*	*37.0%*
Net profit after tax	**315**	**331**	**225**
NPAT margin	*20.2%*	*20.4%*	*13.9%*
Dividends paid	222	308	271
Dividends paid as % of NPAT	*70.5%*	*93.0%*	*120.5%*

Source: Thames Water Utilities Limited Annual Reports for 2009, 2010 and 2011
Notes
1. Excluding profit on sale of fixed assets

133. TWUL's revenue was broadly flat in FY11, with inflation and real price increases agreed with Ofwat being offset by a fall in metered consumption by customers during the period. Operating expenditure rose during FY11 largely due to increased bad debt provisioning as a result of the economic downturn, higher business rates, additional costs associated with the unusually cold winter weather, and general inflationary pressures on costs. As a result, earnings before interest and tax (EBIT) fell by 10.6% to £600m in FY11.

134. Revenue is forecast to grow strongly over coming years reflecting the strong growth in nominal RCV agreed with Ofwat under AMP5. The realised EBIT margin will depend on TWUL's operational performance, including incentives or penalties provided by Ofwat in accordance with the building blocks methodology discussed above. Realised net profit after tax (NPAT) margin will also depend on TWUL's funding structure and movements in interest rates.

135. Dividends are paid in accordance with TWUL's dividend policy which states that the directors must take into account, inter alia, the company's current and expected regulatory and financial performance and debt covenants. As shown above, dividends reduced by 12% in FY11. We understand this was as a result of the company's decision to reduce leverage ahead of the restructure of holding companies' debt, as discussed below, as well as a decline in EBIT and NPAT in FY11. Future growth in dividends will depend not only on earnings growth, but also continued support from debt providers funding TWUL's increased capital expenditure programme, which is running at a level significantly above annual depreciation. We note that dividends received by EPIC from Thames Water do not reconcile exactly with dividends paid by TWUL given the various levels of ownership and debt in the Thames Water structure.

136. A summary of TWUL's financial position for the previous three financial years is set out below:

Summary Financial Position

As at 31 March £m	2009	2010	2011
Tangible fixed assets	7,124	7,532	8,145
Current and other assets (excl. cash)	2,318	2,370	3,275
Total assets	**9,442**	**9,902**	**11,420**
Current liabilities	(1,111)	(1,351)	(1,016)
Non-current liabilities	(6,722)	(6,995)	(8,898)
Net Assets	**1,609**	**1,556**	**1,506**
Net debt	(5,316)	(5,549)	(6,795)
Senior Debt / RCV ratio			
Actual	*72.0%*	*68.3%*	*77.4%*
Covenant	*75.0%*	*75.0%*	*85.0%*

Source: Thames Water Utilities Limited Annual Reports for 2009, 2010 and 2011

137. We note the following regarding TWUL's financial position:

- Tangible fixed assets reflect accounting book values, rather than RCV.
- Net assets fell by £50m in FY11 because the dividend exceeded NPAT by £46m, as well as movements in pension scheme balances.
- Net debt increased significantly in FY11 as a result of the company's decision to replace debt previously held within the holding companies (i.e. the entities above TWUL) with debt in the securitisation group (TWUL) as well as TWUL's ongoing capital expenditure program.

138. TWUL has an extensive debt funding programme including issuance of public bonds and bank facilities. Various financial covenants are required to be met under the terms of this funding, including senior debt / RCV set out above. TWUL's senior debt / RCV covenant was increased from 75% to 85% in April 2010 which allowed an increase in debt funding within TWUL. TWUL forecasts that its ratio of senior debt / RCV will rise to approximately 80% at 31 March 2012, and remain at that level during FY13. As at 31 March 2011, TWUL was compliant with all financial covenants and was expected to remain so over the remainder of AMP5.

5. Assessment of the Proposed Transaction

Introduction

139. As set out in Section 3, EPIC is requesting Shareholder approval to sell all of its effective 1.24% indirect shareholding in Thames Water for no less than £34.0m (the Minimum Price). The Minimum Price reflects the reported fair value of Thames Water contained in EPIC's financial statements as at 31 March 2011.

140. In order to assess the Proposed Transaction, we have considered the following:

- Reported fair value as at 31 March 2011;
- Minimum Price relative to comparable transactions;
- Size of shareholding and provisions of the Shareholders' Agreements; and
- Process being undertaken to sell EPIC's shareholding.

Reported Fair Value as at 31 March 2011

141. As noted in section 2, the reported book value of EPIC's investment in Thames Water as at 31 March 2011 reflects the assessed "fair value" based on application of a DCF valuation methodology.

142. Key inputs in the DCF valuation included the operating forecasts included in the AMP5 agreed with Ofwat, expected regulatory performance, financing costs, and inflation rates. TWUL accounted for approximately 99% of the total valuation, with non-regulated assets held by Thames Water accounting for the remaining 1%.

143. The reported book value of EPIC's investment in Thames Water as at 31 March 2011 therefore reflects its pro rata share of the present value of expected future cash flows.

Minimum Price Relative to Comparable Transactions

144. Water utilities are generally valued using a DCF valuation approach as the primary methodology, such as that used to determine the fair value recorded in EPIC's financial statements, as stated above. The resulting DCF value is then cross-checked to the implied multiple of RCV. Multiple of RCV is considered to be the most appropriate metric given it is a fundamental building block used by Ofwat for price setting purposes.

145. The table below summarises the implied regulated EV / RCV multiple for Thames Water as at 30 November 2011 (the approximate date for the expected completion of the Proposed Transaction) based on the Minimum Price:

EV at Minimum Price [1]	As at 30-Nov-11 [2]	
(£m)	RCV (£m)	Regulated EV [3] / RCV
11,241	9,648	1.15x

Notes

1. Based on Minimum Price and estimated net debt at 30 November 2011.

2. Nominal RCV has been estimated based on nominal RCV at 31 March 2011, real RCV at 31 March 2012 included in AMP5 agreed with Ofwat, latest inflation data, and pro rata allocation for 30 November 2011.

3. Excluding value of non-regulated business.

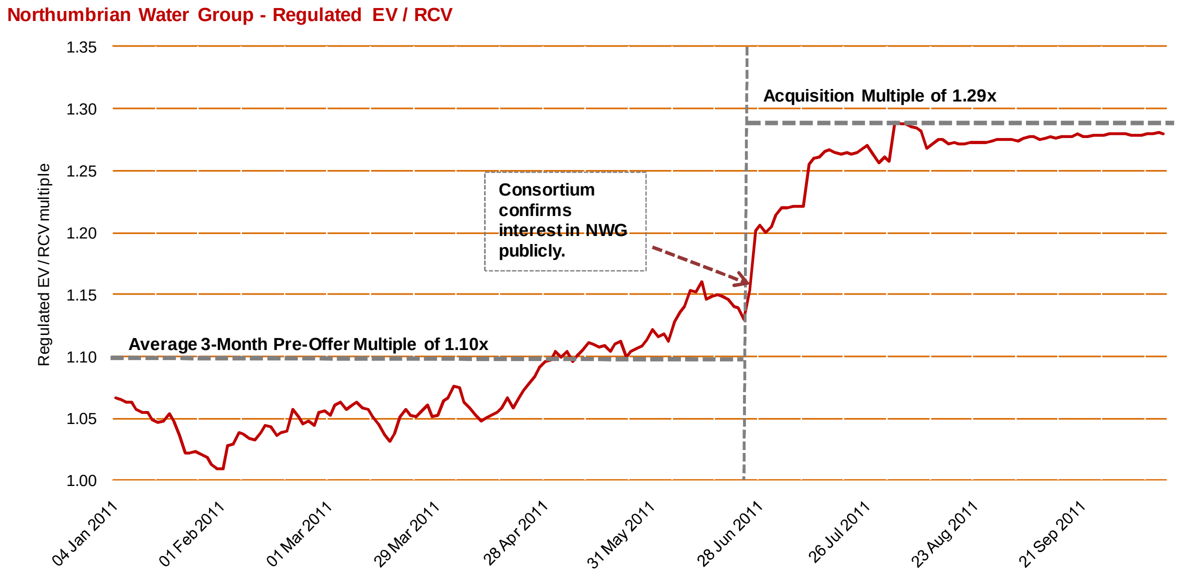
Source: EPIC Management, PwC Analysis

146. As shown above, the Minimum Price reflects a premium to RCV of approximately 15% based on TWUL's estimated nominal RCV at 30 November 2011.

147. UK water companies generally trade at a premium to RCV. This premium reflects expected future growth in RCV, operating efficiencies that may be achieved to improve margin, incentives that may be allowed (or penalties charged) by Ofwat, and any cost of capital benefits that may improve future earnings under the building block methodology outlined above. As discussed previously, Thames Water has the highest growth in RCV under AMP5, which, all other things being equal, should justify a higher premium over RCV.

148. Appendix D sets out comparable UK transaction RCV multiples since 2005 together with current RCV multiples for three comparable listed UK water utilities. Since 2005, four of the ten water and wastewater companies have been subject to a full takeover, with EV / RCV multiples ranging from 1.20x to 1.38x. We note that all of the transaction multiples (except for the Northumbrian and Thames Water transactions) are based on EVs that include non-regulated businesses which can distort simple EV / RCV multiples. These multiples also reflect 100% control rather than the sale of a minority interest. Minority interests generally trade at a discount reflecting the value for control, such as the ability to determine company strategy, capital structure, and dividend policy.

149. During 2011 the sector has witnessed a number of transactions, with the £4.7b acquisition of Northumbrian Water Group (NWG) by a consortium of investors being the most directly relevant to Thames Water in terms of size and scale of operations. NWG was previously listed on the London Stock Exchange and delisted on 14 October 2011 following the completion of the acquisition. The chart below sets out the movement in NWG's Regulated EV / RCV (i.e. excluding estimated value of non-regulated business based on broker estimates) based on its traded share price prior to delisting in October and net debt and RCV as at 31 March 2011:



Source: Capital IQ, Factiva, PwC Analysis

150. As shown above, the acquisition represented a regulated EV / RCV multiple of 1.29x. This reflects a significant premium over the average regulated EV / RCV multiple of 1.10x for the three month period prior to the acquisition announcement.

151. Appendix D provides regulated EV / RCV multiples for the three other listed UK water companies. United Utilities and Severn Trent, the second and third largest water companies in the UK by RCV, both have small non-regulated businesses and are trading at regulated EV / RCV multiples of 1.06x and 1.08x respectively. Pennon owns South West Water and has a significantly higher non-regulated business mix, and is trading at an estimated regulated EV / RCV multiple of 1.22x. The estimated value of non-regulated business has been excluded from the regulated EV / RCV multiples in Appendix D.

152. The extent of the premium buyers are prepared to pay for a water/wastewater business is typically justified by reference to:

- The prospect of future growth in RCV relative to other participants in the industry – in this regard, Thames Water has a history of superior RCV growth, in part due to the extent of its network replacement that it is required to undertake;

- The expected level of over-performance that in an investor might hope to achieve through application of what they regard as "superior" management and operating efficiencies including capex efficiency under the CIS framework discussed previously;

- Regulatory performance, including any expected incentives allowed or penalties applied by Ofwat; and

- Any reduction in the cost of capital employed which may be achieved through introduction of lower-cost debt.

153. Whilst some observation can be made about individual transactions with reference to these criteria, it is not possible to accurately discern the precise extent to which these factor correlate to the premium over RCV that a purchaser has been willing to pay in any given instance. These factors illustrate the need to be careful with simplistic comparisons across different transactions, and the importance of having regard to the different circumstances of the subject company, and the expectations and motivations of the purchaser.

154. Overall the analysis suggests that the Minimum Price is reasonable relative to comparable transaction and comparable trading multiples, especially given that EPIC holds a minority interest in Thames Water and its stake would therefore generally be expected to trade at a discount to the pro rata value of 100% of Thames Water.

Size of Shareholding and Provisions of Shareholders' Agreements

155. EPIC holds 2.52% of KWIHL representing a 1.24% indirect interest in Thames Water. This level of shareholding does not provide any level of control over either KWIHL or Thames Water to EPIC, and as a result EPIC's investment returns such as dividends are largely dependent on the decisions made by other larger shareholders. For example, EPIC is unable to appoint a director nor block any decisions requiring shareholder approval, either at the KWIHL or Thames Water level. Minority share parcels generally trade at a discount to the prices that might be achieved where the transaction conveys 100% ownership and control.

156. EPIC is bound by the provisions of the Shareholders' Agreements which contain various requirements, restrictions and specific provisions governing the sale of shares (as set out in Section 3) and which restrict the information that can be disclosed to outside parties. These provisions effectively restrict EPIC's ability to freely sell its Thames Water shareholding to a third party, which could be expected to negatively impact the price that would otherwise be achievable in an open market.

Process Undertaken to Sell EPIC's Shareholding

157. MIRA(E)L was engaged by EPIC in July 2011 to assist in securing a purchaser for EPIC's interest in Thames Water. MIRA(E)L was considered to be the best placed to assist with this process given its extensive experience in relation to the operation and management of Thames Water, its investors and the provisions of the Shareholders' Agreements. MIRA(E)L is also incentivised to obtain the highest price possible in order to maximise the performance fee payable which EPIC may be obliged to pay to MIRA(E)L upon realisation of the Thames Water investment under the Investor Services Agreement, as discussed previously.

158. We have been advised that in October 2011, a non-binding offer was submitted by a prospective new third party investor interested in acquiring a specific minority interest in Thames Water. MIRA(E)L is also aware of certain other KWIHL shareholders that are interested in selling their shares at the price indicated by the new investor which, when aggregated with EPIC's shares, will achieve the new investor's required level of shareholding. The price indicated by the new investor exceeds the Minimum Price. The price that would be offered to EPIC under this potential transaction, should it proceed, would comprise a pro rata allocation of the full offer price, so that EPIC would benefit directly from any uplift in value attributable to the larger shareholding being transacted and the fact that this is expected to convey to the investor the benefit of board representation.

159. MIRA(E)L have informed EPIC that a non-binding agreement has been executed with the third party investor confirming the price and total level of shareholding that it is seeking to acquire pursuant to the offer described above. However, as any sale by EPIC, and other existing Thames Water shareholders, is subject to the pre-emption processes pursuant to the Shareholders' Agreements, a binding sale agreement does not exist. The pre-emption processes are expected to take 4 – 6 weeks each once the sale notices have been issued. There is a risk that existing shareholders do not exercise their pre-emptive rights and the third party investor subsequently decides not to proceed or seeks to materially alter the terms. In this event, EPIC would need to find an alternative buyer or accept the revised terms offered. The price achieved in this situation could be less than the expected offer price currently being negotiated with the new investor, reflecting inter alia the fact that EPIC's shareholding on its own does not provide a board seat.

Summary

160. In our opinion the Minimum Price is fair and reasonable to EPIC given it reflects EPIC's pro rata share of the DCF valuation as at 31 March 2011 and is broadly consistent with comparable EV / RCV multiples as reflected by the other listed UK water utilities and recent transactions in the sector.

6. Assessment of Options Available to EPIC

Overview

161. There are five options available to consider in relation to the financial issues immediately facing EPIC:

- Do Nothing (or "Status Quo");
- Renegotiation of Funding;
- Capital Raising;
- Sale of Moto investment; and
- Sale of Thames Water indirect shareholding.

162. Each of these options is considered below.

Do Nothing (Status Quo)

163. As set out in Section 2, EPIC's current funding position is not sustainable and the Company's operating cash flow is negative.

164. Under the status quo, the Company will be unable to repay the NAB facilities that expire on 30 April 2012, and will therefore be in breach of the facility agreement. NAB could then seek to recover amounts owed by forcing a sale of the investments pledged as security. EPIC would no longer be in control of this process, which may result in a significantly lower sale price being achieved and / or additional costs being incurred which would adversely impact Shareholder value.

165. The world's financial markets remain volatile, meaning that the prices achievable for EPIC's assets, and the NZD:GBP exchange rate will continue to fluctuate. Whilst it may be possible for EPIC to achieve a higher price or a more favourable exchange rate through realising assets at a later date, this is by no means assured. Moreover, given the Company now has less than six months remaining before the scheduled expiry of its core funding facility, in our opinion it would be irresponsible of the Directors not to take action now to ensure the Company is in a position to meet its obligations when they fall due in April 2012.

166. The status quo is therefore not a viable option, and EPIC will need to be proactive to ensure the best outcome is achieved for Shareholders.

Renegotiation of Funding

167. EPIC currently has approximately $60.3m of funding comprising a fully drawn $48.7m term loan facility with NAB (Facility B) which expires on 30 April 2012 and $13.2m of convertible loan notes issued to Torchlight, the coupon on which is currently 20% and progressively increases to encourage repayment.

168. Options in relation to this funding include:

- Renegotiate and extend the term and quantum of the existing NAB facility; or
- Seek alternative debt funding sources.

169. As discussed in Section 2, NAB has previously sought to reduce its exposure to EPIC and agreed to a waiver of a planned $14.0m loan reduction in June 2011 on the basis that PGC took up a $14.0m sub-participation in the facilities. PGC's support provided a short term solution only, enabling EPIC to partially reduce NAB's exposure and extend the repayment date to 30 April 2012. This was not expected to be a long term solution.

170. In our opinion, NAB (or any other bank for that matter) is unlikely to be willing to provide the Company with long term funding for approximately $60m, given the level of leverage this would represent, and the fact that the Company has a negative operating cash flow and is therefore unable to fully service debt other than by other asset sales or accessing additional funding, such as the support already provided from PGC or Torchlight.

171. There are also practical difficulties involved for PGC and/or Torchlight should they be asked to provide further funding assistance to the Company. As such funding constitutes a "related party transaction", it would therefore require shareholder approval or a waiver from the NZX as was required for PGC's sub-participation in EPIC's NAB loan facility (assuming PGC remains listed).

172. Alternative debt funding sources will not address the issues facing EPIC. In our opinion, it is unlikely that any lender will extend credit to EPIC on terms comparable to the current NAB facilities given the current issues facing EPIC. Any increase in interest payments will put further pressure on EPIC's cash flow and debt serviceability.

173. Accordingly, in our opinion, renegotiation of EPIC's debt funding, either with NAB or through alternative providers, is not a viable option. EPIC needs to materially reduce its current debt burden, including the convertible loan notes, to reduce financing costs and improve operating cash flow.

Capital Raising

174. A new equity capital raising would have the benefit of enabling EPIC to repay debt thereby reducing (or eliminating) its substantial financing costs. To repay all net debt at 30 September 2011, including the convertible loan notes, would require a capital raising of approximately $60m, being an amount that is approximately half the Company's current issued capital, but exceeds the Company's approximate market capitalisation of approximately $58m.

175. A capital raising could be effected by way of a:

- pro rata rights issue to existing Shareholders and / or;
- placement to certain existing or new shareholders.

176. An informal sounding amongst a small number of mainly retail shareholders in relation to a potential capital raising by EPIC was carried out earlier in 2011. The resulting feedback, as disclosed to Shareholders in the 2 June 2011 shareholder notice, was that the shareholders canvassed had expressed a general unwillingness to invest further capital in order to reduce debt.

177. A pro rata rights issue would require full support from the Shareholders in order for the required amount of new capital to be raised. In our view, recent shareholder sentiment together with EPIC's share price performance and illiquidity means that this would be difficult to achieve, notwithstanding that there would be some shareholders willing to participate, especially if the rights offer price is discounted. We believe that a discount would be required to motivate Shareholders to take up their rights, as has been the case with other recent rights issues in New Zealand, otherwise Shareholders who do not elect or are unable to participate would have their ownership position diluted.

178. To illustrate, in order for EPIC to raise say, $30m of new capital and reduce its debt by approximately half, is likely to require the issue of 120 million new shares assuming a discounted issue price of say, $0.25 per share, which compares to the trading band for shares of the last six months of between $0.25 and $0.50. This would represent close to a doubling of the Company's issued capital base. Moreover, if its largest Shareholder, EPAM, took up its full entitlement, and other Shareholders did not, then there is a limited ability for EPAM to underwrite the rights issue and subscribe for more of the new shares without infringing the fundamental rule under the Takeovers Code limiting its shareholding to 19.9% in the absence of making a compliant takeover offer or first obtaining shareholder approval.

179. In our view many of EPIC's Shareholders are unlikely to favour a rights issue and therefore may not be supportive for a number of reasons. First there is the poor performance of the Company's shares as an investment post-IPO. The shares were originally issued at $1.00, there have been two further capital raisings at $0.90, and recent trading of shares during the last six months has occurred at prices below $0.50 per share. Secondly, the shares were originally promoted as a secure infrastructure-based investment offering a relatively high yield. This is no longer the case, and even if a partial debt repayment occurs, it is unlikely in the near future that the Company would be able to resume dividend payments at a level that would offer an attractive yield, given there would still be a substantial level of debt that requires servicing from the Company's limited cash flow. Thirdly, there are practical difficulties confronting the Directors undertaking a capital raising at this time, given the pending maturity of the Company's debt facilities.

180. In the event that the Company did proceed with a discounted pro rata rights issue, it is unlikely that Shareholders would be able to readily and efficiently trade their rights given the illiquidity in EPIC's shares. Therefore non-participating Shareholders would be unable to obtain full value from their rights by selling them to other investors as is the case with rights issues undertaken by companies whose shares are listed on a recognised stock exchange. In circumstances where a discounted rights issue is being undertaken and shareholders are either unwilling or, for whatever reason, unable to take up their rights, the inability to efficiently trade rights and realise the implied value means non-participating shareholders will have their holdings diluted and suffer value loss as a consequence.

181. We also believe that a placement of shares to existing or new shareholders would also need to be priced at a discount given EPIC's recent history. Assuming an amount of say, $30m was to be raised to repay the Torchlight convertible notes and reduce the NAB exposure to a level that may be acceptable, would require a placement to a number of shareholders, so as to ensure that no single shareholder ended up owning more than the permitted 19.9% of the Company, unless the Shareholders first approved a higher level of shareholding (as is permitted under the Takeovers Code). Furthermore, EPIC's unlisted status would exclude or limit the interest and ability of certain investors to participate. Any discount associated with such a capital raising would be dilutive to existing Shareholders, although this can be mitigated by offering participation to existing Shareholders on the same terms.

182. Any capital raising that involves an offer to existing Shareholders would require a prospectus, and this would take time to prepare, and is also likely to entail significant transaction costs. Therefore, any attempt at capital raising will involve the Company enduring a further period of uncertainty. With the pending Christmas break, the Company will start to run out of time to avoid serious risk of a breach in its funding arrangements occurring.

183. Therefore whilst a capital raising is technically feasible, there are a number of practical and commercial difficulties and Shareholders' interests are likely to be better served by realising one of EPIC's major investments at fair value, rather than by the Company undertaking a discounted rights issue or placing new capital, also at a discount.

Sale of Moto Investment

184. A sale of EPIC's 17.49% Moto shareholding at around, or in excess of, the current book value of $45m (being the original cost adjusted for gains and losses, including foreign currency translation, since acquisition under the equity accounting method) would repay a substantial proportion of EPIC's outstanding net debt. It would also realise an investment that is currently paying any dividends and we do not expect this to alter in the near term. Moto may even require additional capital from its shareholders, hence there is some attraction for the Company pursuing the sale of EPIC's Moto investment.

185. Moto is one of five major UK motorway services operators including Welcome Break, Roadchef, Extra and Westmoreland. We note that one of the largest operators, Roadchef, has experienced financial difficulties in recent years.

186. EPIC has not undertaken a formal market testing exercise for its 17.49% stake in Moto given the current market conditions, the distraction of Moto's recent recapitalisation and the sensitivity of a sale process at this stage for other Moto shareholders. A pre-emptive rights process also applies to the Company's investment in Moto and there are a number of restrictions on the sale of any Moto shareholding outside of the existing shareholder group.

187. EPIC received one offer in June 2011 from a related party. The offer was considered reasonable by the Board in terms of value, however, the offer was structured as a staged transaction. It comprised a progressive deal that only offered certainty over 49.99% of EPIC's holding in Moto at an acceptable price point immediately, however, the sale of the balance of EPIC's shareholding over the next 12 months was not committed.

188. A sale of 49.99% of EPIC's shareholding in Moto with a purchaser holding an option to acquire the remainder of the stake until the expiry of the option period (June 2012) would have left EPIC unable to market the residual 50.01% of its Moto investment over that period. The offer also had a number of conditions and gave rise to potential tax issues in respect of retention of EPIC's existing PIE status. At the time, the Board attempted to extract a binding offer for the sale of EPIC's entire stake in Moto with the interested party, however, negotiations were not successful.

189. Following assessment of the offer received, the Board decided to hold EPIC's stake in Moto in favour of seeking a 'cleaner' exit in respect of its stake in Thames Water (refer below).

190. Given the attempt already made to locate buyers for EPIC's stake in Moto, the timeframe available to the Company in order to resolve its debt repayment obligation, and the restrictions contained in the Moto shareholders agreement affecting saleability of this investment, we do not believe that a fresh attempt at divesting the Moto shareholding is a feasible option for the Company to pursue at the present time.

Sale of Thames Water Shareholding

191. A sale of EPIC's 1.24% indirect shareholding in Thames Water in excess of the Minimum Price would provide the Company with sufficient funds to repay most, if not all, of its debt facilities, including the Torchlight convertible notes, albeit EPIC would no longer own a significant yield asset. Depending on the actual price achieved and the level of debt repaid, funds may also be available to be applied to other investments, or for a share buyback that could offer some liquidity to Shareholders.

192. The original EPIC Investment Prospectus stated that EPIC would seek to exit its investment in Thames Water within 5 years after making its investment in 2007 if the restriction preventing the Company being listed on a stock exchange remained in place. A sale of EPIC's Thames Water investment now is broadly consistent with this statement. In our opinion, sale of the Thames Water investment also opens up the prospect that the Company could seek a listing of its shares on the NZX, as a means of providing enhanced liquidity for Shareholders.

193. A sale of the Thames Water investment is also consistent with one of the key findings from the Company's recent Strategic Review, namely its preference for undertaking investments that also carry some ability to influence the investment, as is the case with Moto, but which is not the case in respect of the small indirect shareholding in Thames Water.

194. A sale of the Thames Water stake will enable EPIC to repay most, if not all, of its outstanding debt, which may be a more appropriate position for the Company so long as its other major investment in Moto is not generating any cash income. Moreover, there remains a prospect that Moto may require additional capital to continue its development, and there is risk of value loss to EPIC should a Moto capital raising occur if it is unable to fully participate. Completion of the Proposed Transaction may mean EPIC is in a position where it has funding available for further investment in Moto should the need arise.

195. In addition, the Company may be able to consider other infrastructure-related investment opportunities consistent with its updated strategy per the Strategic Review. At present, EPIC is precluded from considering any investment opportunities as it has no financial flexibility.

196. Other options identified for EPIC from the Strategic Review that could be considered following completion of the Proposed Transaction include an internalisation of its management function, which may find favour with investors who are showing a preference for internally managed investment vehicles; as well as the prospect of a partial share buyback that would provide at least a degree of liquidity for Shareholders. Sale of the Thames Water investment also opens up the prospect that the Company could seek a listing of its shares on the NZX to provide Shareholders with better liquidity.

Summary

197. EPIC needs to address its pending debt repayment obligations in the most effective way possible in order to maximise shareholder value. This includes both its NAB facilities, which expire on 30 April 2012, as well as the convertible loan notes which were only meant to provide short term funding and stipulate progressively increasing coupon rates to encourage repayment. Any failure to address these immediate financial issues will likely result in a materially worse outcome for Shareholders hence the status quo is not a viable option.

198. Debt markets have changed significantly since EPIC was first established. This coupled with EPIC's reduced debt servicing ability following Moto's suspension of dividends means that in our assessment EPIC will be unable to secure alternative term debt funding on terms comparable to its existing bank facility. Accordingly, restructuring EPIC's existing debt facilities is also not viewed as a viable option.

199. In our opinion any equity capital raising is likely to be priced at a discount to "fair value" given EPIC's recent performance, share illiquidity, and the quantum of funds required. Accordingly, Shareholders' interests are likely to be best served by realising assets at around their fair value, if achievable.

200. EPIC has two major investments that could be realised in order to materially reduce EPIC's indebtedness. The Company's 17.49% stake in Moto has a book value of $45m while the indirect 1.24% shareholding in Thames Water has a book value of $72 million. An informal market sounding in respect of EPIC's Moto shareholding and a formal market testing exercise for its Thames Water investment have been undertaken.

201. One offer was received for Moto from a related party however this offer was rejected by the Board as it contained a number of conditions, only provided certainty of realisation in respect of half the Company's Moto shareholding, and did not provide certainty of funding ahead of the 30 April 2012 bank deadline. We do not consider that mounting a fresh attempt to sell the Moto investment is a feasible option for EPIC at the present time.

202. A sale of EPIC's indirect 1.24% indirect shareholding in Thames Water at or above the Minimum Price is, in our opinion, fair and reasonable as the Minimum Price reflects the 31 March 2011 reported "fair value", lies within the band of comparable EV/RCV multiples corresponding to other listed UK water utilities and comparable recent transactions in the UK water industry. Such a transaction will provide certainty around the Company's ability to repay most, if not all, of its debt funding ahead of the 30 April 2012 deadline. Accordingly, the sale of EPIC's interest in Thames Water at or in excess of the Minimum Price is a reasonable and appropriate course of action given all the circumstances faced by EPIC.

203. In the event that the Proposed Transaction does not proceed, then the Company will have less than five months before expiry of its debt facilities in order to find an alternative solution. In our view, this would be a near untenable position for the Directors. In our assessment the Board would have little alternative but to consider some form of discounted capital raising, which in all likelihood would transfer a substantial ownership position and control of EPIC to the new capital provider(s). This would in effect, be equivalent to existing investors selling a proportion of their indirect participation in Thames Water and Moto. However, we believe the outcome for Shareholders is likely to be worse in this eventuality, given the pressure that the Company would be under due to the pending debt maturity, which would manifest itself in a value transfer from the Shareholders to the new investors providing the fresh capital.

Appendix A – Statement of Independence, Disclaimer, Restrictions, Limitation of Liability, and Indemnity

Qualifications

This Report has been prepared by the Corporate Finance division of PricewaterhouseCoopers, which provides advice on mergers, acquisitions and divestments, valuations, independent expert's reports and appraisals, financial investigations and strategic corporate advice.

The Partners responsible for this Report are David Bridgman M.Com, LLB, CA and Eric Lucas BA (Hons), FCA, both of whom have extensive experience in relation to corporate restructurings and the preparation of independent expert's reports for the benefit of investors.

Independence

PricewaterhouseCoopers considers itself independent of EPIC in relation to the Proposed Transaction.

Our fee for preparation of this report is based on the time required for its completion, and it is not contingent on the success or implementation of the Proposed Transaction.

We are not, and do not intend to be, a director, officer, or employee of, EPIC.

In addition to this Report we have provided the following advice and reports to EPIC during the last three years:

- Analysis of EPAM Value Report – June 2009; and
- EPAM Due Diligence Report – June 2009.

PricewaterhouseCoopers New Zealand is the statutory auditor of EPIC.

Scope, Disclaimer and Restrictions

The purpose of this Report is to advise the Directors of the EPIC Board about the Proposed Transaction and its likely future impact on the Company and its shareholders.

This Report is prepared solely for this purpose and should not be used or relied upon for any other purpose.

The statements and opinions expressed in this Report are based on information available as at the date of the Report.

In preparing our Report, we have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of EPIC or any of its related entities. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

In forming our opinions, we have relied on forecasts and assumptions prepared by EPIC and third parties reporting to EPIC (including members of the Macquarie Group) about future events which by their nature are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

The statements and opinions expressed in this Report have been made in good faith and on the basis that all relevant information for the purposes of preparing our Report has been provided by EPIC and / or its directors and advisers, and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise.

Accordingly, neither PricewaterhouseCoopers nor its partners, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in our Report resulting directly or indirectly from any such circumstances or from any assumptions upon which our Report is based proving unjustified.

Our opinions have been arrived at based on economic, market and other conditions prevailing at the date of our Report. Such conditions may change significantly over relatively short periods of time.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of our Report, was not brought to our attention, or subsequently comes to light.

Limitation of Liability

PricewaterhouseCoopers will accept liability to pay damages for losses arising as a direct result of breach of contract or negligence on our part in respect of services provided in connection with, or arising out of, this engagement but, to the extent permitted by law, any liability of PricewaterhouseCoopers, its partners and staff (whether in contract, negligence or otherwise) shall in no circumstances exceed five times the fees paid in the aggregate in respect of all such services.

We accept no liability to any party other than the addressee, as our client.

Indemnity

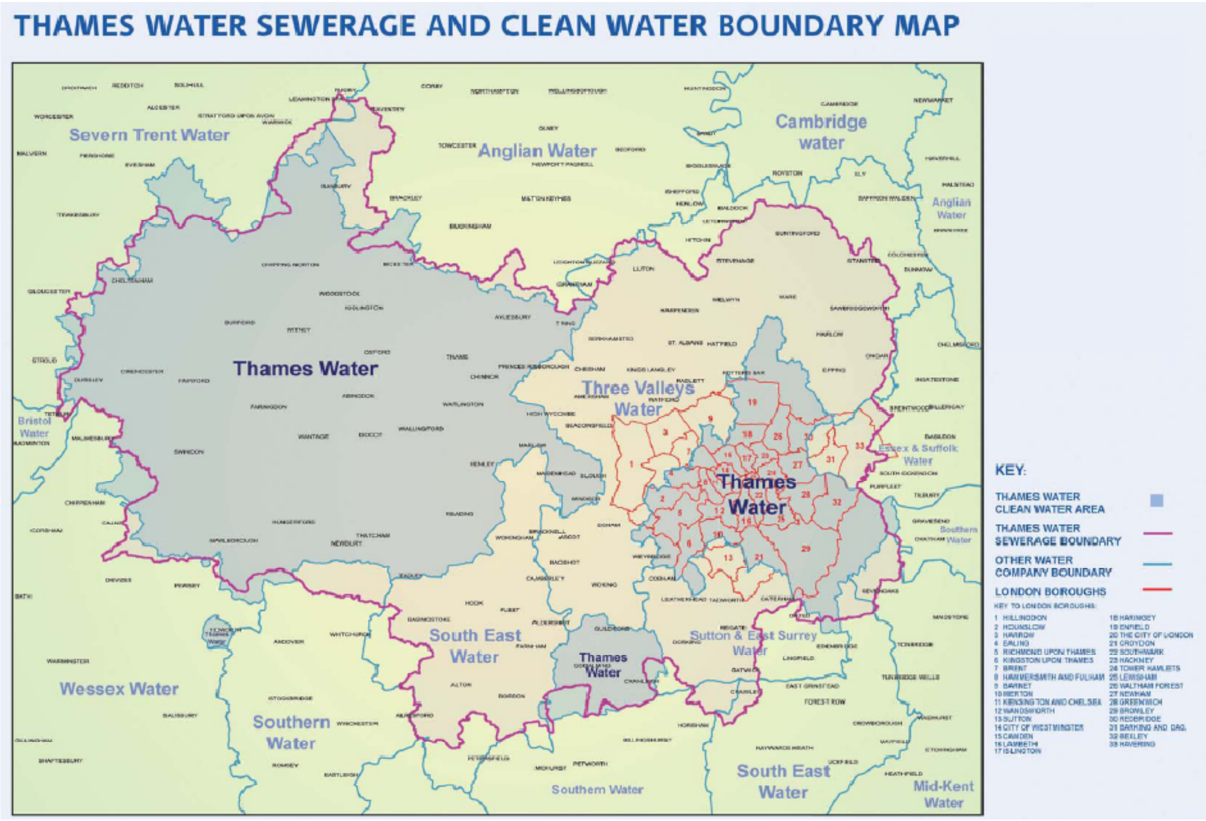
EPIC has agreed to indemnify us against claims brought by any third party (which includes but is not limited to EPIC Shareholders and prospective investors). The indemnity covers PricewaterhouseCoopers for any loss or liability suffered or incurred as a result of or in connection with the preparation of our Report. The indemnity will not apply to the extent that it has been determined by a Court that there is negligence or misconduct on our part.

Appendix B – Sources of Information

- EPIC Annual Reports for financial years ended 31 March 2009, 2010 and 2011
- EPIC Group Management Accounts for the period ended 30 September 2011
- KWHL Annual Report for the financial year ended 31 March 2011
- EPIC Investment Statement and Prospectus – Offer of Shares dated 26 April 2007
- Constitution of EPIC dated 26 April 2007
- KWHL Subscription and Shareholders' Agreement dated 11 October 2006
- KWIHL MIC Subscription and Shareholders' Agreement dated 11 October 2006
- EPIC Investment Statement and Prospectus – Offer of Shares dated 14 August 2009
- EPIC and Macquarie Investment Management (UK) Limited Investor Services Agreement relating to KWIHL dated 2007
- Convertible Note Deed – EPIC and Torchlight (GP) Limited (in its capacity as General Partner of Torchlight Fund No 1 LP)
- Fourth Amendment and Restatement Deed – Facility Agreement between NAB and EPIC dated 8 July 2011
- PGC NZX Waiver in relation to PGC's sub-participation in NAB facility dated 11 July 2011
- Letter from MIRA(E)L to EPIC dated 8 July 2011 outlining the proposed terms of engagement in relation to the proposed sale of EPIC's indirect stake in Thames Water
- Letter from MIRA(E)L to EPIC dated 3 October 2011 in relation to the Proposed Transaction
- EPIC Shareholder Announcements
- EPIC share price and volume data provided by Sharemart and Computershare
- Calculation of relevant RCV multiple implied by the Minimum Price provided by Management
- Calculation of Performance Fee related to the Proposed Transaction provided by Management
- TWUL Annual Reports for financial years ended 31 March 2009, 2010 and 2011
- Thames Water Bond Prospectus June 2011
- Various Thames Water management presentations to shareholders
- Thames Water Shareholder announcements
- Thames Water website (www.thameswater.co.uk)
- Ofwat 2009 Final Determination
- Ofwat published RCVs for 2010 / 11
- Broker Reports for Pennon, Northumbrian, Severn Trent and United Utilities for past two years
- Moto Holdings Limited Annual Reports for the financial years ended 31 December 2009 and 2010
- Correspondence provided by EPIC Management in relation to the offer received for EPIC's investment in Moto
- Moto Amended and Restated Shareholders' Agreement dated February 2011

- Capital IQ
- Factiva
- RBNZ Website (www.rbnz.govt.nz)
- Various email correspondence and discussions with EPIC Management and Directors
- EPIC website (www.epam.co.nz)

Appendix C – Map of Area Serviced by Thames Water



Source: Thames Water Website

Appendix D – UK Listed Water and Wastewater Companies and Analysis of Transactions

Comparable Company Analysis - United Kingdom Water and Wastewater Utilities

As at 28 October 2011

Company	Market Cap (£M)	EV (£M)	RCV at 30 Nov 11[1]	EV/ RCV (30.11.11 RCV)	Regulated Segment of Company: Regulated Cust. Base	Region of Operation	% Rev Share	% Oper. Profit Share	Reg. EV[2]	% of total EV	Reg. EV / RCV
Pennon	2,523	4,896	2,794	1.75x	1.7 million residents	South Western England	39%	73%	3,407	70%	1.22x
United Utilities	4,141	9,197	8,568	1.07x	4.2 million households	North Western England	98%	97%	9,116	99%	1.06x
Severn Trent	3,636	7,793	7,017	1.11x	3.2 million households	English Midlands	81%	97%	7,611	98%	1.08x
			Median	1.11x						**Median**	1.08x

Notes:

1. Based on real RCV at 31 March 2011 and 31 March 2012 per AMP5 agreed with Ofwat, estimated inflation rate of 4.01%, and pro-rata allocation to 30 November 2011

2. After deducting estimated value of non-regulated businesses based on broker estimates

Source: Capital IQ, OFWAT, Company Websites, Annual Reports, Investor Presentations, Broker Reports and PwC Analysis

Comparable Transaction Analysis - United Kingdom Water and Wastewater Utilities

Date	Target	Acquirer	Percentage Acquired	Implied EV (£m)	EV[1] / RCV
Water and Sewerage Companies - 100% Acquired					
Jul 2011	Northumbrian Water Group	Cheung Kong Holdings Limited and associated interests	100.0%	4,732	1.29x[2]
Nov 2007	Kelda Group (Yorkshire Water)	Consortium including Citi, HSBC, Prudential and GIC.	100.0%	5,542	1.27x
Oct 2007	Southern Water	Consortium (Challenger Infrastructure Fund, JP Morgan Asset Management et al)	100.0%	4,195	1.38x
Oct 2006	Thames Water Utilities	Macquarie European Infrastructure Limited	100.0%	8,000	1.20x[2]
				Median	**1.33x**
Other Transactions					
Oct 2011	Agbar UK (Bristol Water Group)	Capstone Infrastructure Corporation	70.0%	307	1.22x
Oct 2011	Cambridge Water	South Staffordshire plc	100.0%	n/a	n/a
Aug 2011	Cambridge Water	HSBC Bank plc	100.0%	75	1.13x
Dec 2010	South East Water	Caisse de Depot et Placement du Quebec	50.0%	331	1.26x
Nov 2009	Southern Water	Australian Government Future Fund	15.6%	4,117	1.26x
Dec 2008	Southern Water	UBS Global Asset Management	7.8%	4,325	1.30x
Oct 2007	South Staffordshire Group	Alinda Capital Partners LLC (IBO)	100.0%	400	1.40x
Oct 2006	South East Water	Hastings Funds Management	100.0%	665	1.33x
May 2006	Bristol Water Group plc	Agbar (Sociedad General de Aguas de Barcelona SA)	100.0%	340	1.51x
Jan 2006	Sutton & East Surrey Water	Deutsche Bank	100.0%	272	1.34x
Feb 2005	Mid Kent Water	Hastings Funds Management; Utilities Trust of Australia	100.0%	241	1.26x
				Median	**1.28x**

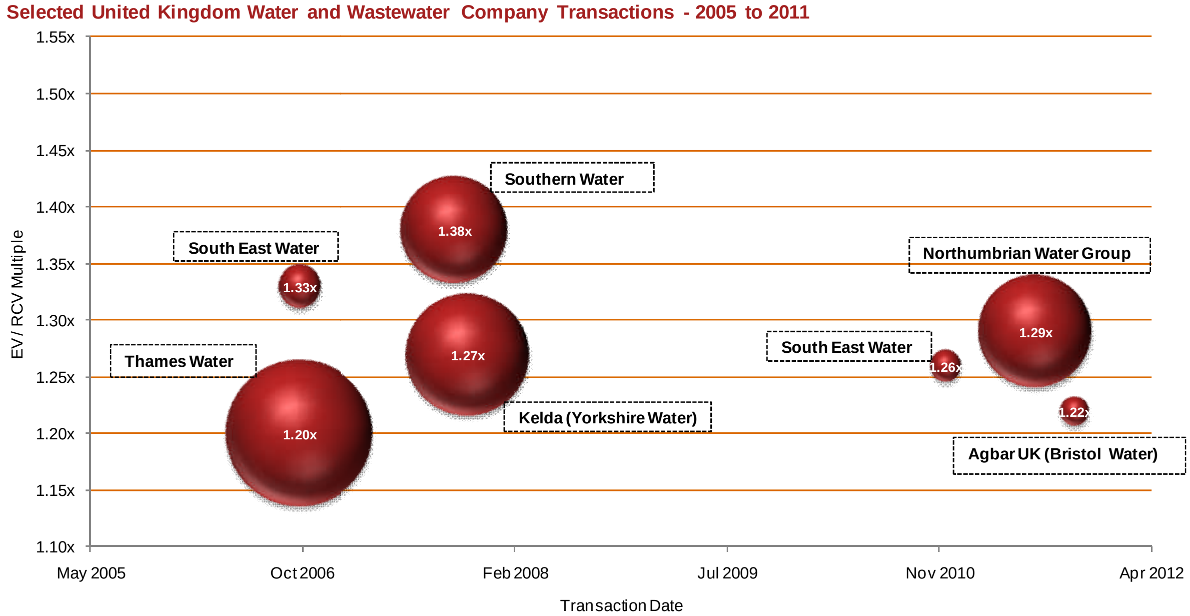
Notes:

1. Implied EV based on total acquisition price including any non-regulated businesses

2. Based on regulated EV / RCV, i.e. excluding estimated value of non-regulated businesses

Source: Capital IQ, Company Presentations, Independent Reports, Factiva, PwC analysis

Selected United Kingdom Water and Wastewater Company Transactions - 2005 to 2011



Source: Capital IQ, Company Presentations, Independent Reports, Factiva, PwC Analysis