Thames Water Utilities Limited Including Kemble Water Finance Investor Report

31 March 2019

Important Notice

This report is being distributed in fulfilment of a document, the Common Terms Agreement (the “CTA”), which governs the Company’s obligations to its bondholders and other financial creditors. It is directed to, and intended for, existing investors in the Company. No other persons should act or rely on it. The Company makes no representation as to the accuracy of forecast information (or any other information in this report, other than set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. This report should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment in the Company. It should be noted that the Company’s auditors have not reviewed the information in this report. For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in article 69 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as it relates to bonds which are already admitted to trading on a relevant market).

This report should be read in conjunction with, and as a supplement to, the Thames Water Utilities Limited financial statements for the period ended 31 March 2019. Please refer to the Thames Water website www.thameswater.co.uk for this document in full.

Contents

1. Overview for the period ended 31 March 2019 (2018/19)

1.1. Financial performance

- £2,036.9 million underlying[1] revenue (2017/18: £2,018.0 million). Increase year on year driven by allowed increases in the Final Determination issued by Ofwat, offset by £40.3 million of Outcome Delivery Incentive (ODI) penalties that TWUL chose to return to customers early
- £454.0 million underlying operating profit (2017/18: £505.9 million)
- £51.6 million underlying profit before tax (2017/18: £137.4 million, excluding profit on the sale of our non-household business)
- £1.189.0 million capital investment into our network, treatment facilities, digital capability and other assets (2017/18: £1,163.2 million)
- No distributions to external shareholders (2017/18: £nil). During the year, dividends of £60.0 million (2017/18: £55.0 million) were paid to TWUL's immediate parent company, Thames Water Utilities Holdings Limited ("TWUHL"), with all of the current year dividends being applied to servicing debt obligations and working capital requirements of other companies within the Kemble Water Group

1.2. Operational performance

- TWUL's performance against its 55 regulatory performance commitments was as follows:
    - 54% were met or favourable against targets (2017/18: 61%)
    - 12% were within the range allowed without a penalty (the "deadband") if defined or, if not, within 5% of the committed performance level (2017/18: 19.5%)
    - 34% were below the deadband (if defined) or more than 5% adverse to the committed performance level (2017/18: 19.5%)
- Achieved 99.96% drinking water quality compliance (2017/18: 99.96%)
- Committed to net zero carbon emissions by 2030 and self-generated 22% of electrical power requirements for operations
- No Category 1 pollution incidents – TWUL's best performance for 10 years, with significantly reduced pollutions (46% reduction) over the last 5 years
- Internal sewer flooding incidents down 3%, and 26% lower since 2015
- To drive operational savings a cost transformation programme has been launched. In June 2019 a reduction of up to 650 roles within support functions was announced. These savings will be partially delivered through not filling vacancies and removing contractors
- TWUL took an industry leadership position in designing and coordinating contingency plans for Brexit

1.3. Leakage[2]

- £1 million per day spent on leakage prevention and network maintenance activities
- Yearend leakage of 690 Ml/d (2018/19: 695 Ml/d). This reduction was despite the impact of the "freeze thaw" and the exceptionally hot summer in 2018
- Going into 2019/20 an average of 1,500 repairs are being completed every week

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[1] Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and disclosed our underlying performance separately, in line with our financial covenants.

[2] Our website provides monthly leakage reporting: https://www.thameswater.co.uk/Help-and-Advice/Leaks/Our-leakage-performance

- Leakage reduction of 27% over the last 15 years

1.4. Customer service and support

- Third lowest average combined water and wastewater bill in England and Wales (£398), 4% below industry average
- 6,742 additional customers with water debt supported through the customer assistance fund, with payments totalling more than £4.5 million
- 41% increase in number of customers benefitting from simplified social tariffs, and a 15% increase in the number of customers on the priority services register
- Extreme weather contributed to 21,108 household written complaints (Mar 18: 17,039). TWUL's ambition is to halve this number by 2025, with immediate steps taken to improve performance. A reduction in complaints of 20% is being targeted in 2019/20
- On track to transition majority of customers to major new relationship management and billing platform by March 2020 to drive service improvements. Over 500,000 customers migrated by July 2019

1.5. Management changes

- In May 2019 it was announced Steve Robertson would step down with immediate effect as Chief Executive Officer of TWUL. Ian Marchant has taken the role of Interim Executive Chairman while a permanent replacement is being sought
- Nick Fincham stepped down in March 2019 from the TWUL Board. He will continue in his role as Strategy & Regulation Director until March 2020

1.6. Governance

- Major review of Boardroom governance completed to rebuild trust and increased transparency
- Independent Non-Executive Directors now represent the largest single group on the Board following four appointments made during 2018/19:
    - Alistair Buchanan (former CEO of Ofgem)
    - Catherine Lynn (former Group Commercial Director of easyJet)
    - Jill Shedden (Group Director, Human Resources at Centrica plc)
    - David Waboso (former MD for Digital Railway at Network Rail)
- Two new shareholder Non-Executive Directors appointed in 2018/19:
    - Michael McNicholas (former CEO of Ervia)
    - John Morea (CEO of SGN)
- Corporate structure simplified with the removal and liquidation of the Cayman Islands subsidiaries
- Revised dividend policy is outlined in the annual report. This includes considerations for Directors to assess before proposing dividends. The dividend policy aligns with paying a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business' current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants

1.7. Social and environmental performance

- Engaged 24,900 schoolchildren through the education programme
- Mean gender pay gap down to 10.4%
- Environmental Performance Assessment score (EPA 3*) maintained

- ESG benchmarking score of 86/100 achieved through the GRESB survey
- Deephams sewage treatment works upgrade completed, winning Greatest Contribution to London award at ICE London Civil Engineering awards

2. 2019 Price review

In September 2018, TWUL submitted its business plan for the regulatory period from 2020 to 2025. In January 2019 Ofwat published their initial assessment of plans, categorising our plan as ‘in significant scrutiny’. A revised version of the TWUL plan was submitted in April 2019, with a focus on balancing affordability with the need to invest in the long-term resilience of our assets and services[3].

In July 2019, Ofwat published its draft determinations for slow track and significant scrutiny companies, which included further challenges for the sector including totex and more stretching performance commitments. Ofwat also updated their initial view of allowed cost of capital based on market factors, revising it downwards by 21bps at the appointee level. Whilst TWUL continues to work through Ofwat’s feedback, its initial view is that the ongoing challenges around efficiency and performance commitments / penalties do not align with the proposed weighted average cost of capital.

The next step in the PR19 process will be for TWUL to respond to the draft determination by 30 August 2019, with Final Determinations due from Ofwat in December 2019 and new tariffs applying from April 2020. As TWUL works with Ofwat during the remaining stages, its interest will be to secure an outcome which is in the best long term interests of customers and the environment whilst maintaining an appropriate capital structure.

3. Regulatory and legal update

Competition Act

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

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

The investigation is at a very early stage and Ofwat is in the process of gathering information from all relevant parties, including ourselves. Once this information gathering process has concluded, Ofwat will decide whether to continue with the investigation or whether to bring it to a close. We expect that this initial information gathering phase will continue over the course of several months and we are co-operating fully with the investigation

Leakage regulatory update

In 2017, Ofwat commenced an investigation in relation to TWUL’s leakage performance, following it failing to meet its performance commitment on leakage in 2016/17. In August 2018, at the conclusion of the investigation, TWUL entered into binding undertakings to improve its leakage performance and accepted that it had breached section 37 of the Water Industry Act (failure to maintain an efficient and economical system of water supply in its area) and Condition F6A of its Instrument of Appointment

[3] https://corporate.thameswater.co.uk/About-us/our-strategies-and-plans/our-5-year-plan-for-2020-to-2025

(failure to ensure sufficient financial and management resources and systems of planning and control, in order to carry out its regulated activities).

TWUL agreed to pay £65 million back to customers on top of £55 million in automatic penalties incurred for missing commitments to reduce leakage, making a total of £120 million to be returned to customers. This money comes solely from Thames' shareholders and is reflected in customer bills for 2019/20.

The undertakings also included a commitment to provide six monthly reports to Ofwat on compliance with the undertakings. To date, two reports have been submitted, in November 2018 and May 2019.

Legal proceedings update

On 21 December 2018 at Oxford Crown Court the Company was convicted of one charge contrary to Regulation 12(1)(b) and 38(1)(a) of the Environmental Permitting Regulations 2016 of discharging untreated sewage from Bruern Road Sewage Pumping Station in August 2015. The fine imposed was £2 million, with a reduction by £200,000 for donations paid by Thames to certain environmental projects. Therefore the total fine payable was £1.8 million. Costs were awarded in the region of £80,000.

On 10 June 2019 at Stratford Magistrates' Court the Company was convicted of three charges contrary to Regulation 26(1)(a) and Regulation 33(1) of the Water Supply (Water Quality) Regulations 2016 of failures in disinfection of drinking water at Coppermills Water Treatment Works on 16 February and 10 July 2017. The fine imposed was £160,000 and costs were awarded in the region of £80,000.

On 10 July 2019 at Aylesbury Crown Court the Company was convicted of two charges contrary to Regulation 38(2) of the Environmental Permitting Regulations 2016 of breaching environmental permit conditions which resulted in discharges from Maidenhead Sewage Treatment Works in June and August 2014. The fine imposed was £607,000 and costs of £100,000 were awarded.

4. Financing

TWUL raises debt either directly or through its wholly owned financing subsidiary, Thames Water Utilities Finance plc ("TWUF") which was re-registered as a public limited liability company on 31 August 2018.

During 2017/18, TWUL announced its decision to close down its Cayman Islands financing subsidiary, Thames Water Utilities Cayman Finance Limited ("TWUCF"). In order to facilitate the closure, the assets and liabilities (including borrowings, derivatives and intercompany loans receivable/payable) of TWUCF were transferred to TWUF on 31 August 2018. TWUCF is no longer a subsidiary of TWUL and was formally dissolved on 28 February 2019.

Table 1 Current credit ratings

Company	Moody's	Standard & Poor's
TWUL – Corporate Family Rating	Baa1 (negative)	N/A
TWUF – Class A Issuer Rating	A3 (negative)	BBB+ (negative)
TWUF – Class B Issuer Rating	Baa3 (negative)	BBB- (negative)

In May 2018, Moody's affirmed our Baa1 Corporate Family Rating ("CFR") but placed us on negative outlook (31 March 2018: stable outlook). This continues to align with our ratings of A3 and Baa3 for our Class A and Class B debt respectively.

In July 2018, S&P re-affirmed our credit rating of BBB+ and BBB- (31 March 2018: BBB+ & BBB-) in respect of our Class A debt and our Class B debt respectively and placed us on negative outlook (31 March 2018: stable outlook).

We retain credit ratings that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers.

i) Recent financing activity

In August 2018, TWUL's 364-day liquidity facilities were increased from a total size of £500.0 million (split: £370.0 million debt service reserve and £130.0 million operations and capital maintenance reserve) to £550.0 million (split: £400.0 million debt service reserve and £150.0 million operations and capital maintenance reserve).

In November 2018, TWUF increased the size of its Revolving Credit Facility ("RCF") from £950.0 million to £1,386.8 million, with a 5-year term (and two 1-year extension options). In January 2019, the RCF was further increased, by exercising two accordion features, taking the size of the RCF from £1,386.8 million to £1,646.4 million. Of the £1,646.4 million, £1,432.1 million is designated as a Class A facility and £214.3 million is designated as a Class B facility.

The margin on the facilities, where drawn, includes an element linked to our annual performance against an external Environmental, Social and Governance score, as assessed by GRESB. As at 31 March 2019, £245.0 million was drawn from the Class A facility and £214.3 million was drawn from the Class B facility. Both amounts were repaid in April 2019.

In January 2019, TWUF priced a £227.3 million equivalent US private placement, split across 7-year ($106.0 million), 10-year ($131.0 million) and 11-year (€50.0 million maturities). Funding for the issue was completed in April 2019.

In January 2019, TWUL signed a £150.0 million bilateral bank facility with a maturity of 5 years, drawn in March 2019.

In February 2019, TWUF repaid $150.0 million US private placement and related cross currency swaps were settled.

In March 2019, TWUL signed a £189.2 million term loan facility, split across 8-year, 10-year and 12-year maturities. Expected to be drawn in March 2020.

Note: In November 2018, Kemble Water Finance Limited (a holding company within the wider Kemble Water group) signed £190.0 million of term loans maturing in April 2024 and £459.8

million of note purchase agreements maturing between November 2025 and April 2026. In April 2019, £249.8 million of the proceeds were used to repay TWUL's debt.

ii) Bonds outstanding at 31 March 2019

Table 2 Class A and B bonds outstanding at 31 March 2019

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 31 Mar 2019 (£m)
TWUF	GBP	200	5.05%	30/06/2020	A	Fixed Rate Bond	200.0
TWUF	GBP	225	6.59%	20/04/2021	A	Fixed Rate Bond	225.0
TWUF	GBP	175	3.38%	21/07/2021	A	RPI Linked Bond	282.7
TWUF	EUR	113	2.30%	18/07/2022	A	CPI Linked Bond	104.1
TWUF	GBP	300	2.38%	03/05/2023	B	Fixed Rate Bond	300.0
TWUF	GBP	250	1.88%	24/01/2024	A	Fixed Rate Bond	250.0
TWUF	CAD	250	2.88%	12/12/2024	A	Fixed Rate Bond	144.0
TWUF	GBP	500	4.00%	19/06/2025	A	Fixed Rate Bond	500.0
TWUF	GBP	250	2.88%	03/05/2027	B	Fixed Rate Bond	250.0
TWUF	GBP	45	0.72%	21/12/2027	A	RPI Linked Bond	49.1
TWUF	GBP	300	3.50%	25/02/2028	A	Fixed Rate Bond	300.0
TWUF	GBP	330	6.75%	16/11/2028	A	Fixed Rate Bond	330.0
TWUF	GBP	300	5.75%	13/09/2030	B	Fixed Rate Bond	300.0
TWUF	GBP	250	2.63%	24/01/2032	A	Fixed Rate Bond	250.0
TWUF	GBP	200	6.50%	09/02/2032	A	Fixed Rate Bond	200.0
TWUF	GBP	300	4.38%	03/07/2034	A	Fixed Rate Bond	300.0
TWUF	GBP	40	0.75%	18/12/2034	A	RPI Linked Bond	43.6
TWUF	GBP	600	5.13%	28/09/2037	A	Fixed Rate Bond	600.0
TWUF	JPY	20,000	3.28%	20/08/2038	A	Fixed Rate Bond	139.0
TWUF	GBP	50	3.85%	15/12/2040	A	LPI Linked Bond	64.9
TWUF	GBP	500	5.50%	11/02/2041	A	Fixed Rate Bond	500.0
TWUF	GBP	50	1.98%	28/08/2042	A	RPI Linked Bond	68.9
TWUF	GBP	55	2.09%	06/10/2042	A	RPI Linked Bond	72.9
TWUF	GBP	40	1.97%	12/10/2045	A	RPI Linked Bond	46.4
TWUF	GBP	300	4.63%	04/06/2046	A	Fixed Rate Bond	300.0
TWUF	GBP	100	1.85%	28/08/2047	A	RPI Linked Bond	137.8
TWUF	GBP	200	1.82%	28/08/2049	A	RPI Linked Bond	275.6
TWUF	GBP	300	1.68%	11/07/2053	A	RPI Linked Bond	436.5
TWUF	GBP	300	1.68%	11/07/2055	A	RPI Linked Bond	436.5
TWUF	GBP	200	1.77%	28/08/2057	A	RPI Linked Bond	275.6
TWUF	GBP	400	7.74%	09/04/2058	A	Fixed Rate Bond	400.0
TWUF	GBP	350	1.76%	28/08/2062	A	RPI Linked Bond	482.4
Total							**8,265.0**

The face value of Index Linked Bonds as at 31 March 2019 included accretion of £778.0 million.

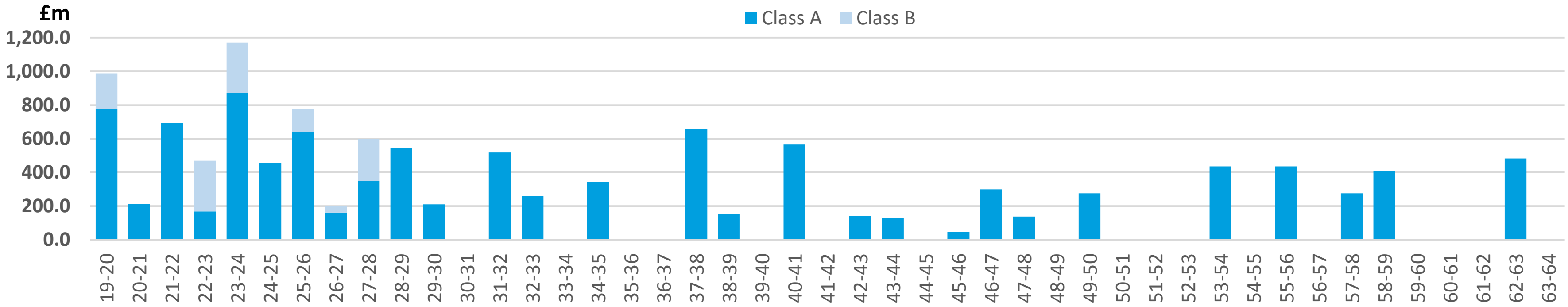
iii) Net debt reconciliation

Table 3 Net debt reconciliation – 31 March 2019

	£m
Face Value Bonds including accretion Class A	7,415.0
Face Value Bonds including accretion Class B	850.0
Total Face Value Bonds including accretion	**8,265.0**
Class A USPP Notes	1,189.5
Class A RPI linked loans (including accretion of £215.4 million)	1,324.6
Accretion on Index Linked Swaps	303.4
Class A Floating Rate Loans	495.0
Class A Cross-currency swaps	(81.4)
Class B Loans	393.3
Less Cash and cash equivalents	(162.0)
Net Debt as per Compliance Certificate	**11,727.4**
Unamortised debt issuance costs and discount	(75.6)
Amounts owed to group undertakings	5.5
Derivative financial liabilities	(222.0)
Interest payable on borrowings	158.7
IFRS 9 transition adjustment	25.8
Net Debt as per accounts	**11,619.8**

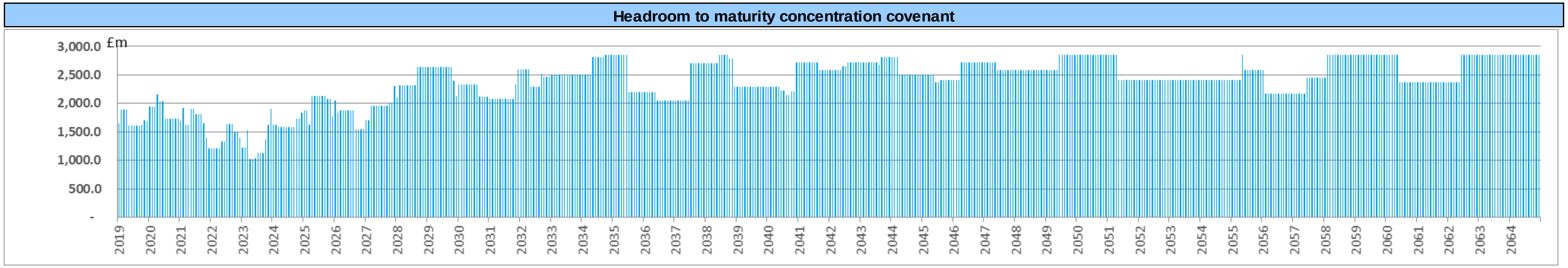
iv) Maturity profile and headroom analysis

Graph 1 Debt maturity profile
As at 31 March 2019



Graph 2 Covenant headroom analysis

The Securitisation Ring-fenced Group is prohibited from incurring new debt which would result in i) debt equivalent to >20% of RCV with a maturity in any 24 month period and ii) debt equivalent to >40% of RCV with a maturity in any AMP



v) Derivative transactions

All hedging agreements are entered into under the terms of the Hedging Policy and the CTA. TWUL and TWUF have entered into ISDA documents with various counterparties.

On 31 August 2018, all the assets and liabilities of TWUCF, including all derivative contracts and ISDA documents, were transferred to TWUF.

Table 4 Group & TWUL Derivative summary valuations

Derivative type	Group MtM as at 31 March 2019 (£m)	TWUL MtM as at 31 Mar 2019 (£m)
Cross currency swaps	13.1	(30.0)
Interest rate swaps	(196.2)	(196.2)
Index - linked swaps	(917.0)	(492.7)
Total	**(1,100.1)**	**(718.9)**

Foreign currency debt instruments are converted to Sterling liabilities with cross currency swaps as illustrated below. Swaps with breaks amount to 1.1% at 31 March 2019 (versus a limit 5% of RCV).

Table 5 Cross currency swaps

Issuer	Foreign Currency	Currency Amount (m)	£m	Maturity Date	MtM as at 31 Mar 2019 (£m)
TWUF	USD	150	96.6	28/02/2022	15.0
TWUF	EUR	113	100	18/07/2022	(2.9)
TWUL	USD	55	38.7	22/03/2023	3.9
TWUF	USD	200	128.8	27/02/2024	17.4
TWUF	CAD	250	143.6	12/12/2024	(2.8)
TWUL	USD	285	200.4	22/03/2025	20.4
TWUF	USD	250	161.0	01/03/2027	16.4
TWUL	JPY	20,000	153.6	20/08/2038	(54.3)
Total			**1,022.7**		**13.1**

In 2014, TWUL entered into £2.25 billion of forward starting fixed rate interest rate swaps (“FSSs”) to fix interest costs for debt expected to be raised during AMP6. The mark to market liability related to the FSSs increased to £201.5 million (31 March 2018: £199.2 million), mainly due to a slight decrease in interest rates off-set by the pull to par effect (as maturities are shortened).

Table 6 Interest rate swaps

Issuer	Notional £m	Start Date	Maturity Date	MtM as at 31 Mar 2019 (£m)
Forward starting interest rate swaps (pay fixed)				
TWUL	500.0*	13/09/2016	13/09/2021	(23.4)
TWUL	500.0*	16/07/2017	18/07/2022	(37.8)
TWUL	300.0*	14/03/2019	14/03/2024	(31.0)
TWUL	400.0*	16/03/2017	16/03/2024	(43.1)
TWUL	250.0	14/09/2019	14/09/2024	(26.2)
TWUL	300.0*	16/03/2018	16/03/2025	(40.0)
	2,250.0			**(201.5)**
Interest rate swaps (receive fixed)				
TWUL	500.0	24/01/2017	13/09/2021	(1.5)
TWUL	300.0	17/07/2017	16/07/2022	(2.1)
TWUL	200.0	22/03/2018	16/07/2022	1.3
TWUL	250.0	03/05/2017	16/03/2024	(1.8)
TWUL	143.5	12/12/2017	18/03/2024	1.1
TWUL	227.3	14/03/2019	14/03/2024	3.4
TWUL	300.0	22/03/2018	17/03/2025	4.9
	1,920.8			**5.3**
Total	**4,170.8**			**(196.2)**

*These FSSs have already commenced.

Table 7 Index linked swaps

The following RPI linked swaps have been entered into to convert the coupon on various bonds.

Issuer	Notional £m	Base RPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 31 Mar 2019 (£m)
TWUL	200	210.9	At maturity	09/02/2032	-	(97.9)
TWUL	150	206.1	At maturity	28/09/2037	-	(99.6)
TWUL	250	206.1	28/09/2023	28/09/2037	12 years, maturity	(159.4)
TWUL	200	206.1	28/09/2022	28/09/2037	Every 5 years	(76.1)
TWUL	94.1	215.1	20/08/2023	20/08/2038	Every 5 years	(27.2)
TWUL	10	258.8	At maturity	31/03/2026	-	(1.9)
TWUL	10	258.8	At maturity	31/03/2026	-	(1.9)
TWUL	114.9	264.8	At maturity	09/04/2058	-	(28.7)
TWUF	100	215.3	30/06/2020	31/12/2029	Every 5 years	(63.7)
TWUF	200	215.3	31/12/2019	31/12/2039	Every 5 years	(188.9)
TWUF	100	218	17/02/2020	17/02/2060	Every 5 years	(152.8)
TWUF	100	235.2	At maturity	11/07/2022	-	(33.4)
	1,529.0					**(931.5)**

The following CPI linked swap has been entered into to convert the coupon on July 2022 EUR bond.

Issuer	Notional €m	Base CPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 31 Mar 2019 (£m)
TWUF	113.0	96.3	At maturity	18/07/2022	-	14.5
	113.0					**14.5**

None of the index linked swaps contain breaks. Accretion as a percentage of Class A net indebtedness is 2.89% (versus a limit of 8% of Class A net indebtedness).

vi) Available facilities

As at 31 March 2019, TWUL had committed facilities of £2,385.6 million (£1,926.3 million undrawn) in place. These facilities provide the necessary liquidity to fund the operations of the business for a minimum of twelve months. The committed facilities consisted of the following:

- £1,646.4 million (£1,187.1 million undrawn) revolving credit facility (RCF) expiring November 2023. As previously noted, in November 2018, the RCF was increased from £950.0 million to £1,386.8 million and in January 2019 further increased to £1,646.4 million.
- £550.0 million 364-day undrawn liquidity facilities (split: £400.0 million debt service reserve and £150.0 million operations and capital maintenance reserve). As previously noted, in August 2018, the facility was increased from £500.0 million to £550.0 million.
- £189.2 million term loan facility, split across 8-year, 10-year and 12-year maturities. Expected to be drawn in March 2020.

vii) Counterparty rating requirements

There are minimum credit ratings requirement for TWUL bank counterparties. Minimum short term ratings from S&P of A-1 and from Moody's of P-1 are required for: money market deposit banks, Account Bank, Standstill Cash Manager and Liquidity Facility Provider. Counterparties losing the minimum rating requirement should be replaced.

Hedge Counterparties are additionally required to hold a minimum long term rating from Moody's of A2. Hedge Counterparties losing the minimum rating requirement must post collateral to TWUL or replace themselves as counterparty.

NatWest currently remains as Account Bank and Standstill Cash Manager despite falling below the minimum rating requirement. Following a competitive tender for a new banking service contract, TWUL has identified a preferred bidder and the planning process for the transition of Account Bank and Standstill Cash Manager has commenced.

viii) Accretion charge

The income statement charge for the 12 months to 31 March 2019 relating to accreted interest expense and the total cumulative accretion held on the balance sheet on index-linked debt and derivative instruments is detailed below.

Table 8 Accretion charge

Instrument	12 Months to Mar 2019 (£m)	Accretion Paydowns 12 Months to Mar 2019 (£m)	Total Cumulative Accretion (£m)
Index-linked Bonds	76.6		778.0
Index-linked Loans	33.4		215.4
Index-linked Swaps	25.8		241.2
Index-linked Swaps with 5 year accretion paydowns	23.7	13.4	62.2
Total	**159.5**		**1,296.8**

ix) Cash and Authorised Investments

As at 31 March 2019, the following cash and cash equivalent investments were held.

Table 9 Cash and Authorised Investments

Counterparty type	TWUL (£m)	TWUF (£m)	Total (£m)
Cash and Cash Equivalents (Including AAA Money Market Funds)	159.6	2.4	162.0
Short Term Investments (Bank Deposits)	-	-	-
Total cash and investments	**159.6**	**2.4**	**162.0**

5. Dividends

No distributions to external shareholders (2017/18: £nil). During the year, dividends of £60.0 million (2017/18: £55.0 million) were paid to TWUL's immediate parent company, Thames Water Utilities Holdings Limited ("TWUHL"), with all of the current year dividends being applied to servicing debt obligations and working capital requirements of other companies within the Kemble Water Group.

6. Outsourcing

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

7. Financial ratios

The number of Test Periods and forward looking test dates varies dependent on the particular Calculation Date and certain periods may not be required for certain Calculation Dates.

We have made adjustments to amounts referred to in the 31 March 2019 TWUL financial statements in order to arrive at the ratios below in accordance with the terms of the Common Terms Agreement.

Forward looking ratios for 31 March 2020 and an information sheet on the additional conformed interest cover ratio calculations are included in Appendices 1 and 2 respectively.

Table 10 Senior and Class A net debt – breakdown of calculation for the twelve months to 31 March 2019

Senior net debt

31 March 2019 (£m)	
Senior net debt per accounts	**11,619.8**
Less Amounts owed to group undertakings	(5.5)
Less accrued interest	(158.7)
Add back unamortised debt issuance costs	75.6
Add derivative financial liabilities	222.0
Less IFRS 9 transition Adjustment	(25.8)
Senior net debt per compliance certificate	**11,727.4**

Class A net debt

31 March 2019 (£m)	
Senior net debt per accounts	**11,619.8**
Less Class B debt	(1,243.3)
Less Amounts owed to group undertakings	(5.5)
Less accrued interest	(158.7)
Add back unamortised debt issuance costs	75.6
Add derivative financial liabilities	222.0
Less IFRS 9 transition Adjustment	(25.8)
Class A net debt per compliance certificate	**10,484.1**

Table 11a Conformed Net Cash Flow

	31 March 2019 (£m)
Cashflow from operations	**1,090.7**
Exceptional items	-
Reversal of capex creditor	-
Add back Impact of IP revenues and payments	-
Add Deferral of K	40.3
Conformed Net Cash Flow	**1,131.0**

Table 11b Net interest paid - breakdown of calculation for the year to 31 March 2019

	31 March 2019 (£m)
Interest paid per accounts	273.8
Interest received per accounts	(10.1)
Net interest paid per accounts	**263.7**
Capitalised borrowing costs	109.3
Facility fees paid	4.1
Intercompany interest received	-
Net interest paid per covenant	**377.1**

TWUL receives interest on its £1,974.7 million[4] (31 March 2018: £1,974.7 million) intra-group loan to TWUHL. Within the calculation of net interest paid, TWUL excludes the interest it receives on this loan. For the purpose of this calculation the tax effect of eliminating the inter-company loan interest is also excluded from the Net Cash Flow. During the year ended 31 March 2019, no interest was received.

[4] Following the raising of debt at KWFL (see recent financing section), in April 2019 part of the proceeds were used to reduce the intercompany loan to £1,752.2 million

Following a STID Proposal in April 2015, additional Adjusted Interest Cover Ratios were introduced to introduce depreciation as a replacement for CCD and IRC from the start of AMP 6. Included in Appendix 1 are the Senior PMICR (additional conformed) calculations as per the information covenant obligation referenced in the above STID Proposal.

Table 12 Depreciation

Depreciation – as used in additional conformed interest cover ratios

	31 March 2019 (£m)
Water and wastewater depreciation (12/13 prices)	(465.7)
Factor to convert from 12/13 to outturn prices	1.1591
Depreciation (Outturn prices)	**(539.8)**

We confirm that in respect of the Calculation Date on 31 March 2019, by reference to the most recent financial statements in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement that the ratios are as detailed in the table below.

Please refer to Appendix 1 Financial ratio calculations for the detailed calculation of each ratio.

Table 13 The ratios – TWUL

Test date	31 March 2019	31 March 2020
Class A RAR	73.5%	73.2%
Conformed Senior RAR	82.2%	80.1%

Test date	31 March 2019	31 March 2020
Conformed Class A ICR	3.4	3.3
Additional Conformed Class A Adjusted ICR	1.8	1.6
Additional Conformed Senior Adjusted ICR	1.6	1.5
Additional Conformed Class A Average Adjusted ICR	1.8	1.8
Additional Conformed Senior Average Adjusted ICR	1.5	1.5

We confirm that each of the ratios has been calculated in respect of the relevant period(s) for which it is required to be calculated under the Common Terms Agreement and has not breached the Trigger Event Ratio Levels and has not caused Paragraph 17 (Ratios) of Part 2 (Events of Default (TWUL and the Issuer)) of Schedule 6 to be breached.

IFRS 16 Consent Process

Following a STID Proposal in March 2019 which was approved by the majority creditors, the definition of “Permitted Financial Indebtedness” was amended to include lease arrangements that would not have been treated as “Financial Indebtedness” prior to the adoption of IFRS 16. It is noted that the amount of Financial Indebtedness, including that under such operating leases, is subject to restriction through the Senior RAR covenant and, in addition, a new sub-cap for operating leases (included as part of the consent process) of 2 per cent. of RCV.

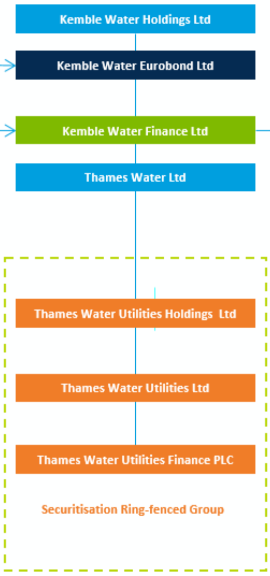
8. Group debt structure (as at 31 March 2019)

All amounts in £ millions

	Amount	Maturity
Shareholder Loan	310.4	March 2021

	Amount	Maturity
Term Loans KWF	75.0	July 2022
Term Loans KWF	200.0	July 2025
Term Loans KWF	4.5	November 2025
Term Loans KWF	5.5	November 2025
Term Loans KWF	100.0	November 2025
Term Loans KWF	200.0	December 2025

	Amount	% of RCV
KWF - Total Group Debt	13,048.7	
KWF - Total Cash	494.8	
KWF - Total Group Net Debt	12,553.9	88.0%



	Amount	Maturity
£399.3m 7.75% Bond	399.3	April 2019
£175m 5.875% Bond	175.0	July 2022

	Amount	Net Debt/RCV
Securitisation Group - Total Class A Debt	10,646.1	
Securitisation Group - Total Class B Debt	1,243.3	
Securitisation Group - Total Senior Debt	11,889.4	
Securitisation Group - Total Cash	162.0	
Securitisation Group - Total Class A Net Debt	10,484.1	73.5%
Securitisation Group - Total Senior Net Debt	11,727.4	82.2%
Accretion on Index-linked swaps (limit: 8% of Class A Net Debt)	303.4	2.9%
Swaps with breaks (limit: 5% of RCV)	153.6	1.1%
Index-linked Bonds/Loans	4,101.6	
Index-linked Debt in Securitisation Group (% of Total Senior Debt)	4,405.0	37.0%
Stated RCV as at 31 March 2019	14,273.7	

Class A	Amount	Maturity
Thames Water Utilities Finance Plc		
£200m 5.050% Bond, Ser. 40	200.0	June 2020
£225m 6.590% Bond, Ser. 41	225.0	April 2021
£175m 3.375% RPI Bond, Ser. 37	282.7	July 2021
USPP $150m Note	115.5	February 2022
Series 13 €113m 2.30% CPI Bond	104.1	July 2022
Series 21 £250m 1.875% Bond	250.0	January 2024
USPP $200m Note	153.9	February 2024
CAD 250m 2.875% Bond	144.0	December 2024
Series 16 £500m 4% Bond	500.0	June 2025
USPP $250m Note	192.4	March 2027
Series 18 £45m 0.721% RPI Bond	49.1	December 2027
Series 19 £300m 3.5% Bond	300.0	February 2028
£330m 6.750% Bond, Ser. 11	330.0	November 2028
Series 22 £250m 2.625% Bond	250.0	January 2032
£200m 6.500% Bond, Ser. 22	200.0	February 2032
Series 14 £300m 4.375% Bond	300.0	July 2034
Series 17 £40m 0.75% RPI Bond	43.6	December 2034
£600m 5.125% Bond, Ser. 44	600.0	September 2037
Series 3 JPY20bn 3.28% Bond	139.0	August 2038
Series 4 £50m 3.853% LPI Bond	64.9	December 2040
Series 12 £500m 5.50%Bond	500.0	February 2041
Series 1 A5 £50m 1.980% RPI Bond	68.9	August 2042
Series 6 £55m 2.091% RPI Bond	72.9	October 2042
Series 10 £40m 1.974% RPI Bond	46.4	October 2045
Series 15 £300m 4.625% Bond	300.0	June 2046
Series 1 A4 £100m 1.846% RPI Bond	137.8	August 2047
Series 1 A3 £200m 1.819% RPI Bond	275.6	August 2049
£300m 1.6802% RPI Bond, Ser. 43	436.5	July 2053
£300m 1.681% RPI Bond, Ser. 42	436.5	July 2055
Series 1 A2 £200m 1.771% RPI Bond	275.6	August 2057
Series 20 £400m 7.738% Bond	400.0	April 2058
Series 1 A1 £350m 1.760% RPI Bond	482.4	August 2062
Revolving Credit Facility drawdown	245.0	April 2019
Accretion on RPI swaps	64.1	2022-2060
Cross currency swaps	(73.4)	2022-2027

Class A (continued)	Amount	Maturity
Thames Water Utilities Limited		
£60m RPI Term Loan	78.8	December 2019
£60m RPI Term Loan	78.5	January 2020
£60m RPI Term Loan	78.1	February 2020
£60m RPI Term Loan	77.9	March 2020
£100m Floating rate Term Loan	100.0	March 2020
£60m RPI Term Loan	77.9	March 2020
£75m RPI Term Loan	89.2	December 2021
USPP $55m Note	42.3	March 2023
£215m RPI Term Loan	248.4	December 2023
£150m Floating rate Term Loan	150.0	February 2024
£100m RPI Term Loan	109.9	February 2025
USPP $285m Note	219.4	March 2025
£125m RPI Term Loan	136.7	March 2026
USPP £216m Note	216.0	April 2028
USPP £210m Note	210.0	March 2030
£215m RPI Term Loan	219.0	November 2032
USPP £40m Note	40.0	March 2033
£100m RPI Term Loan	130.2	November 2043
Accretion on RPI swaps	239.3	2026-2058
Cross currency swaps	(8.0)	2023-2038
Total Class A	**10,646.1**	

Class B	Amount	Maturity
Thames Water Utilities Finance Plc		
Series 22 £300m 2.375% Bond	300.0	May 2023
Series 23 £250m 2.875% Bond	250.0	May 2027
Series 9 £300m 5.75% bond	300.0	September 2030
Revolving Credit Facility drawdown	214.3	April 2019
Thames Water Utilities Limited		
£50m 3.867% Term Loan	50.0	March 2026
£70m 3.867% Term Loan	70.0	March 2026
£20m Floating rate Term Loan	20.0	March 2026
£39m 3.918% Term Loan	39.0	March 2026
Total Class B	**1243.3**	
Total Senior Debt	**11,889.4**	

Yours faithfully,

BRANDON RENNET

Chief Financial Officer and Director

For and on behalf of

THAMES WATER UTILITIES LIMITED

TOM BOLTON

Director

For and on behalf of

THAMES WATER UTILITIES FINANCE PLC

Appendix 1 Financial Ratio Calculations

Forward looking ratios for March 2020 and an information sheet on additional conformed interest cover ratio calculation have been provided to Security Trustee and the Facility Agent as required by the CTA. This information is not however included in the published Investor Report. Secured creditors may register their interest in receiving a full version of the investor report by contacting the Security Trustee, the Facility Agent and Thames Water as appropriate.

Appendix 2 PMICR covenant information sheet

Forward looking ratios for March 2020 and an information sheet on additional conformed interest cover ratio calculation have been provided to Security Trustee and the Facility Agent as required by the CTA. This information is not however included in the published Investor Report. Secured creditors may register their interest in receiving a full version of the investor report by contacting the Security Trustee, the Facility Agent and Thames Water as appropriate.

Appendix 3 Thames Tideway Tunnel

During the 2018/19 financial year, TWUL continued to bill revenue for the construction of the Thames Tideway Tunnel (TTT). £47.5 million was recognised in the period, which is, when collected, passed on to Bazalgette Tunnel Limited (BTL).

As a result of the arrangements in place for the delivery of TTT and related accounting treatment, during the period while the TTT is being built our revenue will increase but there will be no associated costs, except potentially for bad debt expenses, reflected in our income statement while the TTT is built. This will increase our profits but not our cashflows during the construction phase, therefore the Directors have excluded the monies from our underlying results. The cash collected and paid over to BTL during construction represents a prepayment for the use of the TTT once the project is complete.

We have been progressing well with the programme of Enabling Works and handing worksites over to BTL and its contractors, and have now handed over 21 sites to the TTT delivery team. The remaining 2 sites are System Works, which are on track for delivery in year 5.

BTL and their contractors have made good progress over the last financial year. They have mobilised on 20 of their 21 sites (with the final one due to start in 2019); with four of the six Tunnel Boring Machines (TBMs) now underground and three actively tunnelling. The bulk of the tunnelling is yet to take place but as of April 2019, over two kilometres have been completed.

Thames Tideway Tunnel Price Controls

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

Appendix 4 KWF

Consolidated Net Debt Reconciliation

	£m
TWUL Face Value Bonds including accretion Class A	7,415.0
TWUL Face Value Bonds including accretion Class B	850.0
TWKF Face Value Bonds	574.3
Total Book Value Bonds including accretion	**8,839.3**
Class A USPP Notes	1,189.5
Class A RPI linked loans (including accretion of £215.4 million)	1,324.6
Accretion on RPI Linked Swaps	303.4
Class A Floating Rate Loans	495.0
Class A Cross-currency swaps	(81.4)
Class B Loans	393.3
KWF Floating Rate Loans	275.0
KWF Fixed Rate Loans	310.0
Less Cash Investments	(521.4)
Cash Held by Non Covenant Entities	26.6
KWF Net Debt as per Compliance Certificate	**12,553.9**
Subordinated Loan from Kemble Water Eurobond Plc (Parent)	3,100.6
Unamortised debt issuance costs and discount	(86.0)
Fair Value Adjustment on acquisition to loans	178.1
Cash Held by Non Covenant Entities	(26.6)
Derivative financial liabilities	(222.0)
Interest payable on amounts owed to group undertakings	3,069.9
Interest payable on secured bank loans, private placements and other financing	186.1
IFRS 9 transition adjustment	25.8
KWF Net Debt as per accounts at 31 March 2019	**18,779.8**

Appendix 4 KWF (continued)

Financing

During the year ended 31 March 2019, Kemble Water Finance Limited (KWF) completed £649.8 million of new financing across 5 and 7-year tenors. Proceeds were drawn-down between November 2018 and April 2019 (£110.0 million during November 2018, £200.0 million during December 2018 and £339.8 million during April 2019) and used to refinance a £400.0 million Thames Water (Kemble) Finance plc (TWKF) bond maturing in April 2019, with incremental proceeds being used to repay debt at TWUL.

KWF signed £190.0 million of term loans maturing in April 2024 and £459.8 million of note purchase agreements maturing between November 2025 and April 2026, at an average weighted cost of 5.16% on a fixed equivalent basis. The financing follows on from the signing of KWF's new £110.0 million 5-year working capital facility in October 2018, replacing the previous £65.0 million facility. The £110.0 million facility is undrawn.

All bonds issued by TWKF are rated B1 by Moody's with a negative outlook (31 March 2018: B1 with stable outlook) and BB- by Fitch with a negative outlook (31 March 2018: BB with stable outlook).

Dividends

KWF did not pay any dividends in the period.

The ratios

	Default Level	31 March 2019
Cash Flow less Capital Maintenance Expenditure		578.7
Total Interest Service		433.4
Group PMICR	**1.05**	**1.34**

	Default Level	31 March 2019
Total Net Debt		12,553.9
RCV		14,273.7
RAR	**95.0%**	**88.0%**

Appendix 4 KWF (continued)

The ratios (continued)

	Default Level	31 March 2019
Group EBITDA		1,051.9
Total Interest Service		433.4
Interest Cover Ratio	**2.0**	**2.4**

	Lock-Up Level	31 March 2019
Obligor Interest Cover Amount (OICA)		459.2
Projected Interest Service Required Amount (PISRA)		72.0
Ratio of OICA/PISRA	**OICA < PISRA**	**637.9%**

Contact details

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