



**Investor Briefing Materials
Consent Proposals
5 June 2018**

Introduction

In 2007, as part of the acquisition of Thames Water (“TW”) by Kemble Water Limited, two Cayman Island subsidiaries (“Caycos”) were established within the Thames Water Group in order to facilitate access to the international bond markets.

This was required to comply with competing legislation that existed under UK law at the time:

- Public bonds could only be issued by a PLC
- Under English law, a PLC (or any group of companies containing a PLC) was not allowed to borrow in order to assist with the acquisition of shares in a company (“**financial assistance**”)
- The restriction on financial assistance has since been revised, such that Caycos would not be required if the acquisition were to be refinanced today

The Caycos have always been resident in the UK for tax purposes, and they do not confer any tax advantage to Thames Water.

Nevertheless, there has been ongoing negative press coverage of water companies using perceived complex structures and off-shore companies. Even Ofwat and HM Government have expressed a strong desire for the Caycos to be removed from the TWU Financing Group.

Consequently, in November 2017, we announced a Group review of corporate structure and governance to ensure best possible transparency review, including our intention to close our Cayman Island subsidiaries.

This reflects our desire to enhance the transparency of the TWU Financing Group, reinforce customer trust and build on our current relationship with Ofwat. The proposals are important and a positive step for all our stakeholders including our creditors.

“As a first step, Thames Water is announcing that it intends to close its Cayman Islands’ subsidiaries. These have always been fully registered in the UK for tax purposes but no longer serve their original purpose of enabling smoother access to the global bond markets.”

Thames RNS, 23 November 2017

Introduction



We have already engaged with a Special Committee of the Investment Association, the EIB and commercial banks and we have received positive feedback on our proposal.

We have also received positive feedback from a range of creditors following the announcement in November 2017 of our intention to close the Caycos.

Our proposals are expected to be credit neutral to positive given the benefits the proposal will generate with respect to our relationship with Ofwat and our reputation with customers.

A comprehensive comfort package is being offered to facilitate the review of the proposal and minimise the work required to come to a decision on the consent solicitation.

We are offering a work fee as part of the consent solicitation in recognition of the administrative work required in order to participate in the consent.



Corporate Update

Key Themes



Management

The refreshed management team combines experience and approaches from outside the sector with highly experienced, long-standing executives possessing deep understanding of the business.



Operational performance

We retain a leading position in water quality and have reduced pollutions by more than 40% since 2012-14. Improvement plans, backed by significant investment, are delivering gains in leakage, customer service and the management of mains bursts.



Regulation

“We still consider the UK regulatory approach among the most transparent globally, with consultations on potential changes to the framework well in advance of them being implemented.”

(Moody's, 22 May 2018)



Reputation

Ian Marchant, former Chief Executive of SSE Plc, became independent Chairman in January 2018. He is leading a review of Thames Water's governance.



Shareholders

Entry of new shareholders in 2017: OMERS (31.8% upon completion of latest transaction), USS (10.9%) and Wren House (8.8%). Their long term investment horizons align well with the nature of Thames Water.



Credit ratings

Thames Water ratings affirmed (Class A at A3 and Class B at Baa3) by Moody's on 22 May but placed on negative outlook.

S&P ratings remain at BBB+ (Class A) and BBB- (Class B), on stable outlook.



Funding

Efficient capital structure with a low average cost of debt when compared to peers and a balanced derivative portfolio. Recent Maple bond and USPP show potential to diversify further beyond the GBP market.

Governance

Ian Marchant, former Chief Executive of SSE Plc, joined as independent Chairman of Thames Water Utilities Ltd in January 2018 and commenced a governance review.

The removal of our Cayman financing company and its holding company are an important first step in simplifying our group structure.

Although posing no tax benefit since they were established, we know their existence brings opacity to our structure and they no longer serve their original purpose.

The Group is classified as 'Low Risk' by HMRC and we publish 'Our taxes explained' annually for our stakeholders.

Green Bond Framework

In January 2018, we priced a £705m USPP, our first issuance under our new Green Bond Framework

Proceeds were used to refinance our Deephams Sewage Treatment upgrade works, Trunk mains replacement, Metering installations and Thames Tideway Tunnel interfacing works.

We are committed to increasing our ESG reporting.

Community engagement

We engage with our customers through campaigns such as 'Bin it – don't block it', aiming to prevent sewer blockages e.g. by 'fatbergs' – a recent fatberg was 250m long and weighed 130 tonnes, receiving global media coverage.

We have supported the development of two Wetlands centres, including a fully operational 211 hectare site which is the main source of water supply for 3.5 million people as well as being an internationally important nature reserve, providing home and shelter to a wide range of wildlife, from rare waterfowl to majestic birds of prey.

Energy initiatives

We obtain 100% of our energy from renewable sources.

We have the largest floating PV array in Europe made up of 23,000 panels and producing enough electricity to supply the equivalent of 1,800 homes.

Coupled with wind and solar power, we're now producing 23% of our own electricity, enough to power 96,000 homes, and reducing our energy costs by £12 million.

Health and Safety

Key achievements during 2016/17



We have twice clocked up 2 million consecutive hours without a lost time injury

17% reduction in the lost time injury frequency rate



21% drop in serious injury frequency rate

30% decrease in work-related mental health referrals



Closure of Cayman Island subsidiaries viewed as credit positive / neutral by Moody's and S&P

...“Thames also announced that it will close Thames Water Utilities Cayman Finance Limited (TWUCF, senior secured A3 stable) and its holding company, Thames Water Utilities Cayman Finance Holdings Limited. Both entities are registered in the UK for tax purposes, so there will be no increase in tax expenses as a result of this restructuring. This action is credit positive because it increases transparency and removes a target of negative media attention.”...

MOODY'S

Moody's, 4 December 2017

(Thames Water's dividend cut and closure of offshore subsidiary are credit positive)

... “Thames Water has announced that it was looking at potentially closing their Cayman Island subsidiaries. We understand that this move would have a limited effect on cash flow and we therefore view this as credit neutral.”...

S&P Global

S&P, 19 January 2018

(Transaction Update: Thames Water Utilities Cayman Finance Ltd)

Moody's Sector In-Depth, 22 May 2018: Regulator's proposals undermine the stability and predictability of the regime

Moody's assigned negative outlooks to Affinity, Anglian, Thames and Wessex Water, having already placed Northumbrian, Portsmouth, Severn Trent, Southern and Yorkshire on negative outlook in December 2017.

Key themes

- Clawing back 'high-gearing outperformance' would hurt companies with debt much in excess of 60%
- Proposals are a response to public and political pressure, but undermine the track record of stable and predictable regulation
- PR19 likely to be credit negative for most companies
- Parallels with the 1999 price review

“Affirmation of the ratings reflects Moody's view that, while the credit quality of Thames Water and Kemble will be pressured by lower returns and the regulator's proposed outperformance sharing requirements, the PR19 process is in an early stage, the proposals are in a consultation phase, and other aspects of Ofwat's final determination, particularly in relation to cost efficiency assumptions and performance incentives, could act as mitigating factors for overall financial performance. The rating agency also recognises that management still have time to adapt financial policies and bolster financial flexibility ahead of AMP7. Affirmation of the rating also reflects Thames Water's sound business risk profile as a monopoly provider of essential water services and the company's low borrowing costs.”



Transaction Proposal



Transaction Overview

We are proposing to remove two existing Caycos from the TWU Financing Group.

This will be undertaken by substituting Thames Water Utilities Cayman Finance Limited ("TWUCF") (Cayman Islands incorporated) as issuer / borrower for Thames Water Utilities Finance Limited (UK Incorporated) ("TWUF") via a STID Proposal:

- Provided the proposed issuer substitution is passed for all debt in TWUCF, both TWUCF and its Cayman incorporated holding company will be disposed from the TWU Financing Group and subsequently liquidated
- The timeframe for removal of these companies is therefore subject to the outcome of the consent solicitation and STID Proposal

Consent Solicitation

The STID Proposal contains the proposed amendments necessary to effect the issuer substitution.

The STID Proposal is voted on by the Class A Debt Instructing Group ("DIG") comprised of certain Class A creditors (including bank lenders, EIB and USPP Noteholders) and representatives including the Bond Trustee on behalf of the bonds issued out of TWUF and TWUCF.

Bondholders are being invited to vote on extraordinary resolutions (the "Consent Solicitation") in order to direct the Bond Trustee how to vote with respect the STID Proposal and to approve the issuer substitution for the relevant Class of TWUCF bonds.

There will be two separate extraordinary resolutions to approve (i) the issuer substitution of TWUCF for TWUF; and (ii) the STID Proposal.

Voting will be conducted via three separate meetings grouped by bondholder class:

- The Class A bondholders of TWUCF will be invited to vote on both extraordinary resolutions
- The Class B bondholders of TWUCF will be invited to vote on the issuer substitution of their class only but do not vote on the STID Proposal which pertains only to Class A creditors
- The Class A bondholders of TWUF will be invited to vote on the STID Proposal only as bonds issued out of TWUF will remain where they are

Where extraordinary resolutions for issuer substitution are passed, the Bond Trustee will then vote on the STID Proposal on behalf of and as directed by the relevant Class A bonds.



Comfort Package / Offering

Work fee: 2.5bps payable to bondholders that vote all resolutions applicable to their class and subject to (i) approval of both TWUCF issuer substitution resolutions; (ii) approval of the STID Proposal; and (iii) announcement of such approval by the Security Trustee.

Ratings confirmations:

S&P has provided a Rating Agency Confirmation (“RAC”) letter to us which confirms the proposed transaction has no impact on ratings.

Moody’s has issued a ratings affirmation that the transaction will not affect ratings. As a precondition to the implementation of the transaction, we certify to the Security Trustee that Moody’s will not downgrade the Bonds below the then current rating.

Legal Opinion (provided to the Trustee) in respect of matters of capacity and enforceability.

Tax Opinion (provided to the Trustee) in respect of certain UK tax matters applicable to TW, in respect of the transaction.

Investment Association Feedback

TW have met with a Special Committee of the Investment Association and received the following feedback:

The Proposal(s) described in the Solicitation Memorandum have been considered by a special committee (the “Special Committee”) of The Investment Association at our request.

The members of the Special Committee, who hold in aggregate c. 26% of the TWUCF Class A Bonds, c. 45% of the TWUCF Class B Bonds and c. 34% of the aggregate principal amount outstanding of the TWUF Class A Bonds (in each case, at their originally issued nominal amount), have examined the Proposals. They have informed us that they find the Proposals acceptable and that, subject to client and other approvals, they intend to vote in favour of the relevant Proposals in respect of their holdings of Bonds.

The Special Committee has advised the Thames Water group that this recommendation relates only to the Proposals set out in the Solicitation Memorandum and not to any future offers or proposals which we may make.

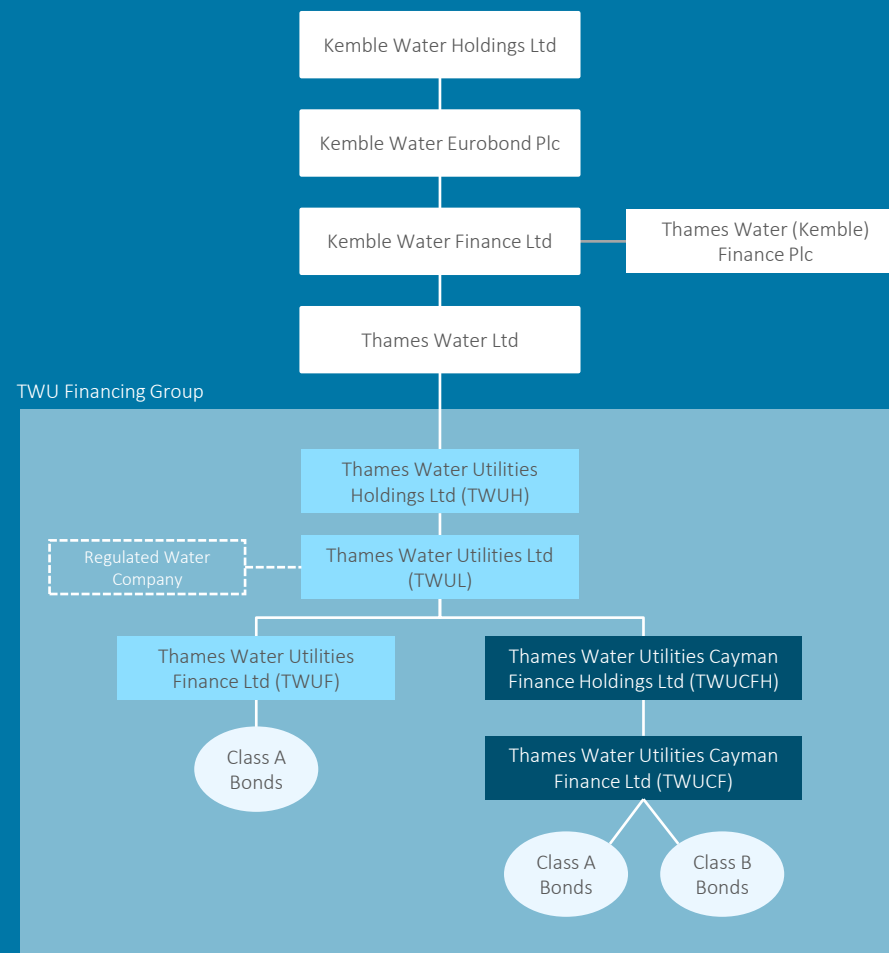
Existing Group Structure

Two companies are Cayman incorporated:

- Thames Water Utilities Cayman Finance Ltd (“TWUCF”) which is involved in the issuance of bonds to third parties; and
- Thames Water Utilities Cayman Finance Holdings Ltd (“TWUCFH”) which is a holding company and has no debt issued to third parties

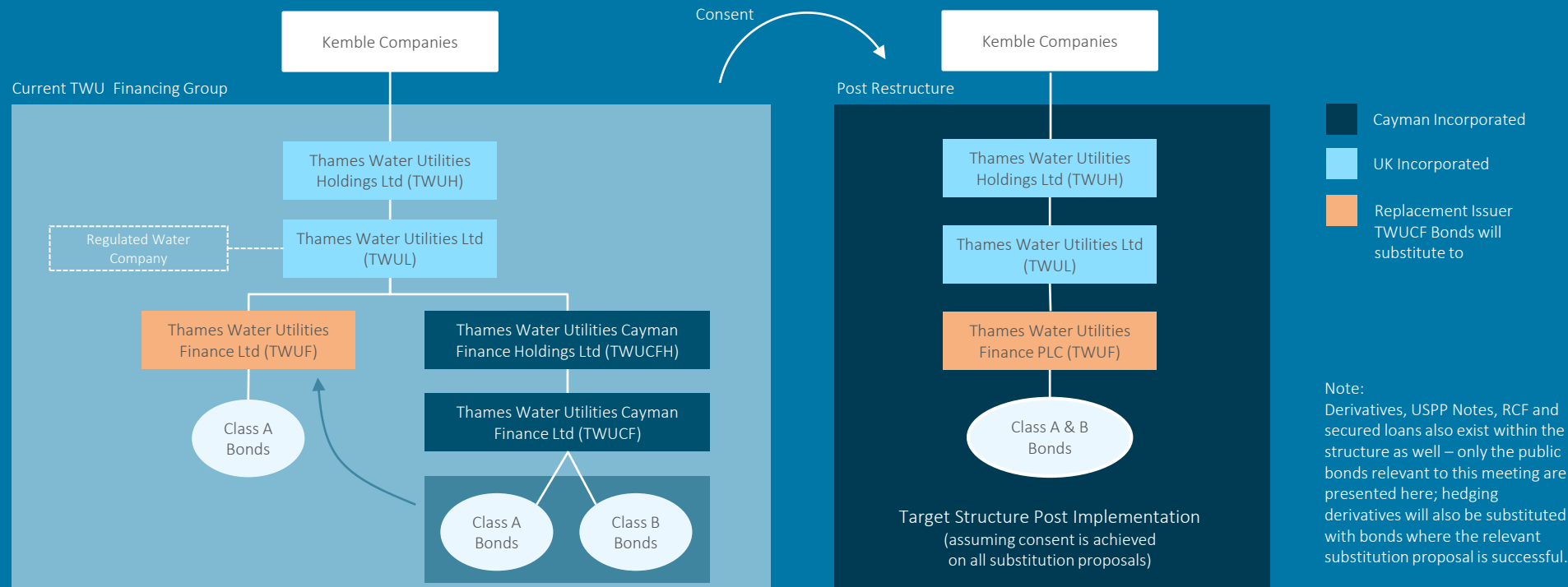
The other issuer of bonds to third party investors from the TWU Financing Group is UK incorporated – Thames Water Utilities Finance Ltd (“TWUF”).

The balance sheets of the Cayman companies consist of loan relationship assets and liabilities. In general, the TWUCF payables are due to third parties and the receivables are due from other companies in the group. TWUCF also has an RCF and hedging derivatives.



Structural Changes Overview

TW has produced amendments to the underlying Finance Documents to give effect to the below changes



We have determined that TWUF should be used as our issuance vehicle for all public issuance out of the TWU Financing Group. As a result, we are seeking approval for the transfer of all Bonds from TWUCF to TWUF to enable TWUCF and TWUCFH to be removed from the TWU Financing Group.

In order for TWUF to undertake its role as platform issuer going forward, TWUF will also be re-capitalised and re-registered as a public limited company.

Provided the issuer substitutions and STID Proposal are successful, it is proposed that the above changes will be implemented as soon as practicable. However, given the nature of the changes it may take time and we anticipate that changes will be undertaken within c.6 months of the successful approval of the STID Proposal.

Impact of proposed changes



Positive impact as part of ongoing focus on ESG agenda

Disposing of the Caycos addresses the negative perception and scrutiny that is being directed at TW (and other UK Water and Sewerage companies) for the use of offshore financing vehicles.

It is important we address any legitimacy issues and support our regulator in meeting their objectives.

Moving to a simplified structure will improve transparency for creditors, the regulator and customers.

...“Thames also announced that it will close Thames Water Utilities Cayman Finance Limited (TWUCF, senior secured A3 stable) and its holding company, Thames Water Utilities Cayman Finance Holdings Limited. Both entities are registered in the UK for tax purposes, so there will be no increase in tax expenses as a result of this restructuring. This action is credit positive because it increases transparency and removes a target of negative media attention.”...

Moody's

No Credit Impact envisaged through the Proposal

TWUF's existing security and guarantee arrangements will remain in place.

There will be no impact on the security or guarantees that pertain to the bonds of TWUCF or TWUF and therefore no impact on the credit quality of these bonds.

No Rating Implications - viewed as credit neutral / positive by rating agencies

As a precondition to the implementation of the transaction, S&P has provided a Rating Agency Confirmation (“RAC”) letter to us which confirms the proposed transaction has no impact on ratings.

Moody's has issued a ratings affirmation that the transaction will not affect ratings. As a precondition to the implementation of the transaction, we will certify to the Security Trustee that Moody's will not downgrade the Bonds below the then current rating.

No UK Tax Impact – Tax Neutral Transaction for TW

The current UK tax profile of the TWU Financing Group should be maintained following the transaction.

Consequently, there should be no adverse UK tax impact on the TWU Financing Group from the proposed transaction.

Comfort Package to facilitate analysis of the proposed transaction and to support there being no adverse effect on bondholders

Analysis of the impact of the proposals has been supported by ratings affirmation, a UK tax opinion and legal opinion (each delivered to the Trustee).

Where full implementation is not feasible following the outcome of the consent solicitation, it is intended that any remaining Caycos will become run-off companies and no further issuance will be made from these companies. Such companies will remain in the structure until conditions allow them to be removed.

Consent / STID Voting Process



Extraordinary Resolutions

Issuer Class A

Two Extraordinary Resolutions	Quorum	Majority to Pass
Vote on issuer substitution	75%	75%
Vote on STID Proposal	75%	75%

Issuer Class B

One Extraordinary Resolution	Quorum	Majority to Pass
Vote on issuer substitution	75%	75%

TWUF Class A

One Extraordinary Resolution	Quorum	Majority to Pass
Vote on STID Proposal	50%	75%

Other Class A creditors will be able to instruct their Class A DIG Representative to vote on the STID Proposal

Other Class A Creditors

USPP
EIB
Senior Lenders

Bond Trustee¹

STID Proposal

Majority to Pass
50%²

Extraordinary Resolutions direct the Bond Trustees how to vote in the STID Proposal

TWUF Bond Trustee¹

Note (1) The Bond Trustee has entrenched rights and will also be requested to sign off in support of these proposals but will seek direction from bondholders via the bondholder meetings as to how to vote on the STID Proposal and its Entrenched Rights (2) 50% of all outstanding principal of Qualifying Class A Debt voted in favour or by the end of the STID voting period, of the outstanding principal of Qualifying Class A Debt that has cast votes, where 50% have voted in favour

The STID Proposal contains the proposed amendments necessary to effect the issuer substitution and is voted on by the Class A DIG comprised of certain Class A creditors (such as USPP Noteholders and Senior Lenders) and representatives including the Bond Trustee which votes on behalf of the bonds issued out of TWUF and TWUCF. The STID Proposal requires a 50% ² majority to pass.

The substitution proposals within the STID proposal are conditional on the extraordinary resolutions of each of the affected classes above.

Classes of bondholders will not be forced to accept issuer substitution by a decision of Majority Creditors. In the event either of the classes of TWUCF bonds vote against the

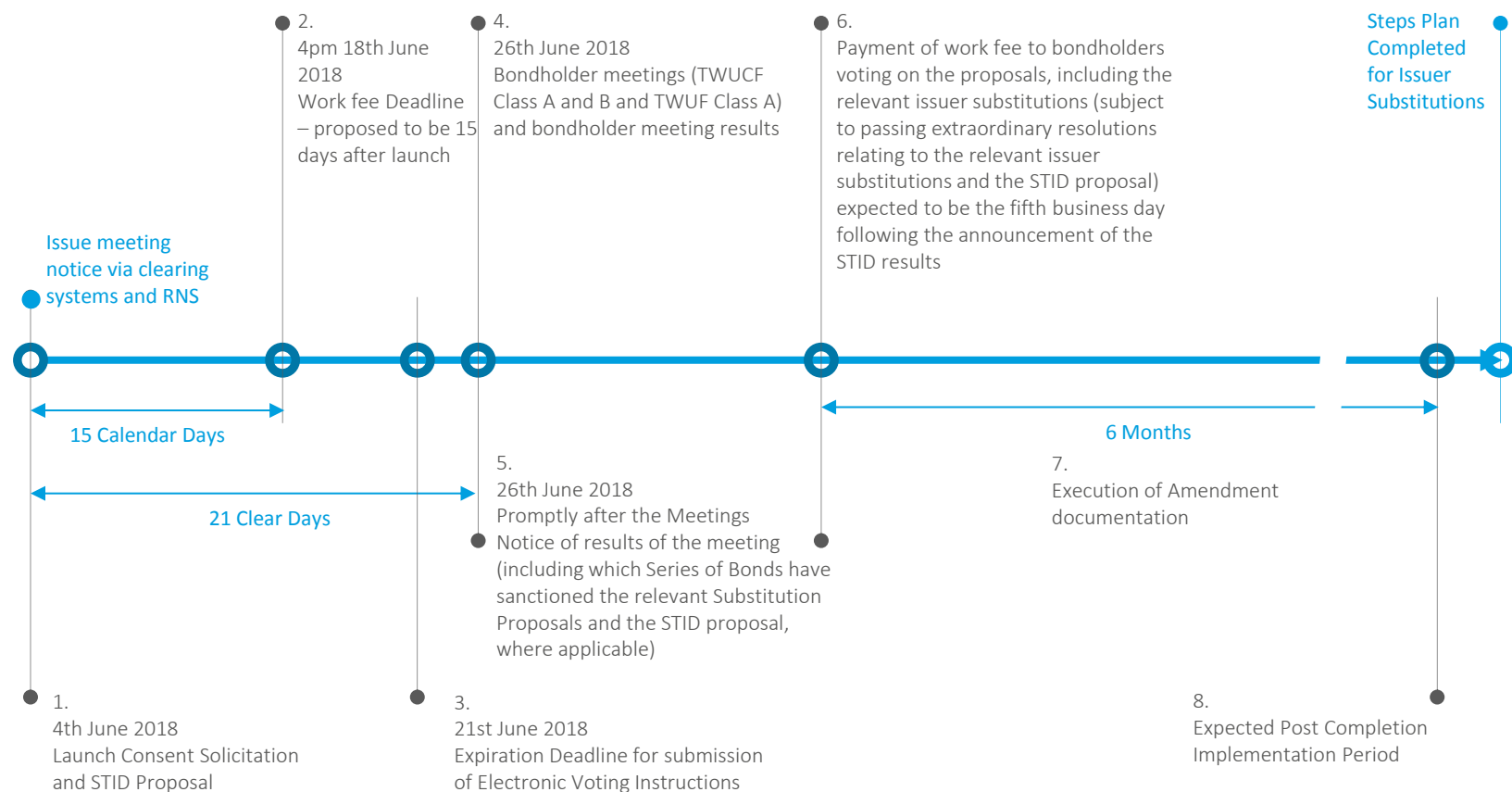
extraordinary resolution for issuer substitution of the relevant class, the substitution will not apply to that class of bondholders.

Only the TWUCF Class A bondholders will vote on both extraordinary resolutions. Class B bondholders are not eligible to vote on the STID Proposal and the TWUF Class A bondholders are not being asked to substitute issuer – therefore

both these classes will vote on one extraordinary resolution.

The work fee will be paid to voting bondholders provided (i) both TWUCF issuer substitutions are approved; (ii) the STID Proposal is approved; and (iii) the Security Trustee has announced approval of the STID Proposal.

Process: Timeline



Proposal Summary

In addition to offering a work fee of 2.5 bps, investors will benefit from the following package of supporting materials



Rating Agency



Rating Agency confirmations confirming that the proposals would not cause a downgrade or removal of any Tranche of Bonds below the then current rating ascribed to such Tranche of Bonds.

It will be a precondition to the implementation of the transaction that S&P will provide a Rating Agency Confirmation ("RAC") letter to us which will confirm the proposed transaction has no impact on ratings.

Moody's has issued a ratings affirmation that the transaction will not affect ratings. As a precondition to the implementation of the transaction, we will certify to the Security Trustee that Moody's will not downgrade the Bonds below the then current rating.

Legal



Bond documentation required to effect the STID Proposal and the relevant amendment documents (amended CTA, MDA, STID, ABA, CP Agreement and Tax Deed of Covenant).

English law legal opinions issued by Linklaters LLP (addressed to the Trustee) as to:

- matters of capacity of TWUF and the English Obligors
- enforceability of the amended CTA, MDA, STID, ABA, CP Agreement and the Tax Deed of Covenant

Certificate from TW on, among other matters, the solvency of TWUF (addressed to the Trustee).

Fees



We are offering a fee of 2.5 bps (subject to conditions) which considers several factors:

- The transaction is in the interests of all stakeholders, including bondholders
- The impact is purely administrative and may be credit positive given the benefits to TW's relationship with Ofwat and its customers
- Analysis of the impact of the proposals is supported by ratings affirmations, a legal opinion and tax opinion (each delivered to the Trustee). The Security Trustee has seen these documents and raised no objections to the proposals being presented to investors
- A substantial amount of work has been undertaken to develop the comfort package, which is intended to minimise the work involved in reviewing the proposal

Tax



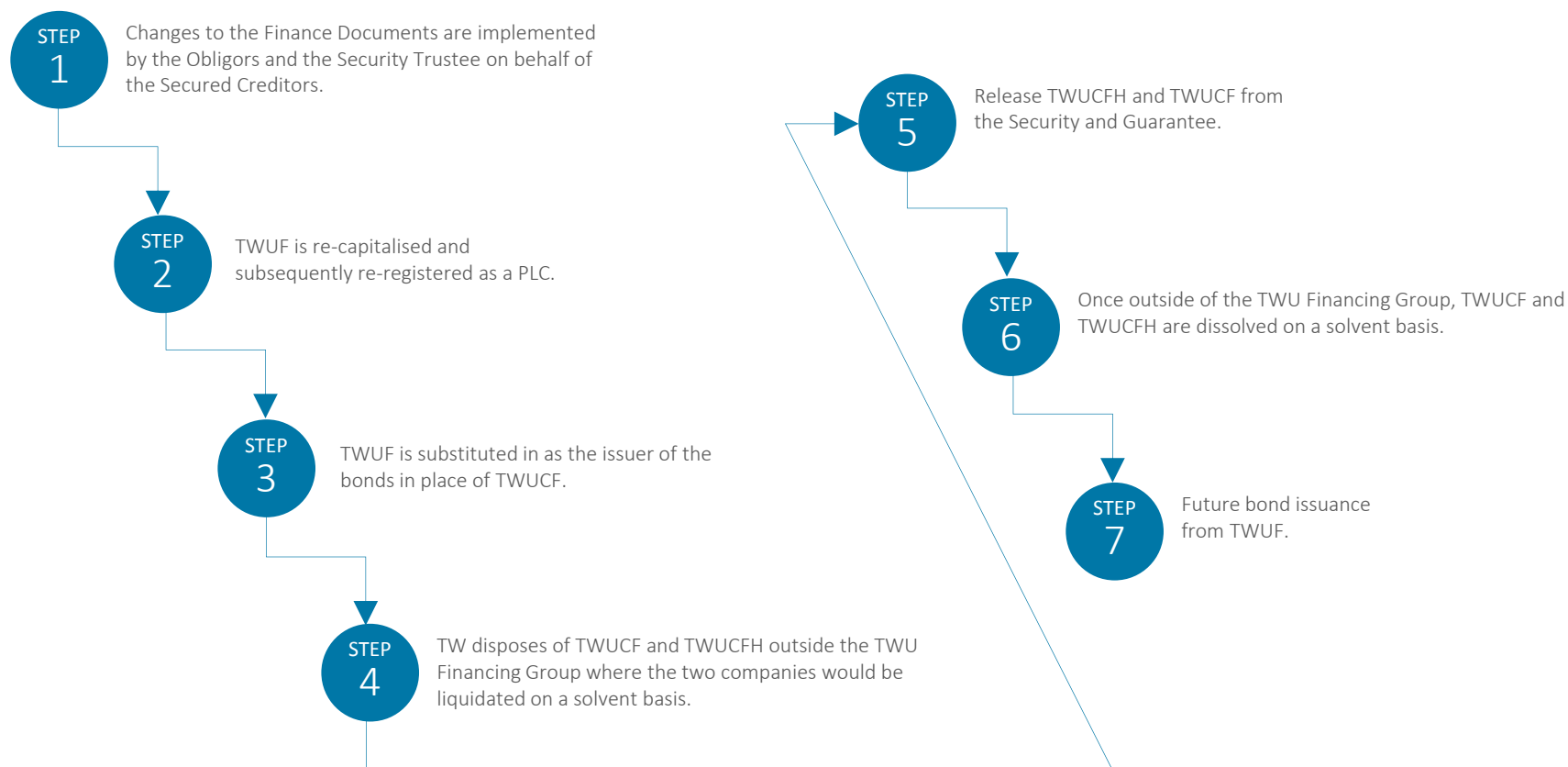
Tax opinion of Linklaters LLP as to certain matters of UK tax law applicable to TW in respect of the proposed transaction (addressed to the Trustee).



Appendix

Steps for Implementation

Please note: subject to the outcome of the bondholder class resolutions and the STID Proposal, the following steps may not be implemented or they may be implemented partially or in a different order from outlined below.



Contact Details



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