



# **Thames Water Utilities Limited Including Kemble Water Finance Investor Report**

**31 March 2020**

## 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 as set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances 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 Thames Water Utilities Limited’s group financial statements for the period ended 31 March 2020. Please refer to the Thames Water website [www.thameswater.co.uk](http://www.thameswater.co.uk) for this document in full.

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## 1. Overview for the period ended 31 March 2020 (2019/20)

### 1.1. Key highlights

- Robust response to the impact of Covid-19, ensuring resilient supplies and extra support for customers, communities, care homes and hospitals
- Recorded the industry's biggest reduction in leakage this century to exceed target. Fixed 200 leaks every day, on average reduced water supply interruptions by more than half
- Vast majority of 3.6 million households moved to new relationship management and billing platform to boost customer experience and reduce complaints
- Stonewall Diversity Champion and first water company to be awarded Disability Confident Leader status
- Sarah Bentley to start as new CEO on September 1, 2020

Ian Marchant, interim executive chairman of Thames Water Utilities Limited, said: "I'm very proud of the way our key workers have risen to the challenge during these unprecedented and rapidly evolving times, when water service resilience is more critical than ever. We've also stepped up our financial support for customers who find themselves in increasingly vulnerable circumstances, especially those affected by the virus.

"As always, reducing leakage was one of our top priorities last year. Given the age and location of much of our water network, we all knew it would be incredibly challenging, so it was really encouraging to exceed our target and drive leakage down to its lowest level since privatisation.

"After a period of unprecedented change and refocus to get Thames Water on track, culminating in the appointment of our new CEO, we're well positioned to address the significant challenges ahead. There's still lots to do, but we've taken a good step closer to where we want to be and remain committed to building our reputation as a company that provides a resilient service in a way our customers, stakeholders and employees can be proud of."

### 1.2. Customer service and social contract

- Number of customers on social tariffs has more than doubled. WaterHelp tariff offers 50% reduction for low income families
- More than 80,000 customers on priority services register for extra support during operational incidents, an 18% year-on-year increase
- Deployment of new industry-leading billing and customer management system to improve experience. Reducing complaints has continued to be a challenge where written complaints have increased to 33,738 (2018/19 21,108). Once optimised, the capabilities of this new system will help us drive the step change we need in our customer service performance, with complaint reduction continuing to be one of our key focuses for 2020/21.
- Commitment to spend £2 billion in 2020/21 to make improvements for customers in a smart and efficient way

### 1.3. Generating public value

- £1 million to be invested in independent trust fund and £400,000 donated to new relief fund to support community partners in financially vulnerable circumstances due to Covid-19
- More than 100 sites - including Walthamstow Wetlands - open to the public for free, offering recreational and educational activities and promoting a healthier wellbeing
- Engaged with over 35,000 young people to promote care for water and inspire the next generation of engineers
- Self-generated over 23% of our electricity needs as part of our commitment to net zero carbon emissions from our operations by 2030

#### 1.4. Financial overview

- £513.4 million underlying<sup>1</sup> operating profit (Mar 19: £474.1 million restated)
- £186.6 million underlying<sup>1</sup> profit after tax (Mar 19: £58.9 million restated)
- Capital investment of £1.2 billion in our network and other assets (Mar 19: £1.2 billion), with around £16 billion invested over the last 16 years
- No distributions to external shareholders for third year in a row (Mar 19: £nil). £56.5 million paid to our immediate parent company to service group interest obligations and working capital requirements (Mar 19: £60.0 million)
- Paid over £196 million in business rates, national insurance contributions, PAYE and other taxes

#### 1.5. Operational performance

- Best leakage performance for more than 30 years, exceeding our regulatory target after a 95 million litres per day year-on-year reduction
- Achieved 99.97% drinking water quality compliance (Mar 19: 99.96%) to remain among the best in the industry
- Reduced water supply interruptions to 7.2 minutes per property served (2019 15.6mins)
- Best performance of the regulatory period for sewage treatment works compliance at 99.71% (2019 98.85%). Completed major upgrade of Deephams sewage treatment works
- Maintained 3-star Environmental Performance Assessment rating, but pollution incidents up to 321 (2019 295). Reducing blockages and pollutions by 10% a priority for this year

#### 1.6. Management changes

- In May 2019 Steve Robertson stepped down with immediate effect as Chief Executive Officer of TWUL and Ian Marchant took the role of Interim Executive Chairman while a permanent replacement was being sought.
- In April 2020, we announced the appointment of Sarah Bentley as our new Chief Executive Officer. Sarah has invaluable experience of the water sector, with her most recent role, as Severn Trent's Chief Customer Officer, covering customer service, network operations, digital and transformation. We look forward to welcoming her to Thames Water on 1 September 2020.
- During the year, we also welcomed four new members of the Executive team – John Bentley as Capital Delivery Director, Nicola Cocks as Regulation Director, Lynne Graham as Human Resources Director and George Mayhew as Corporate Affairs Director. The skills and experience of our new Executive team members complement those of existing members of the team to ensure we have the right capabilities to deliver our priorities. When Sarah joins, over 50% of our Executive team will have been new to their roles since June 2019 and the number of women on the team will have doubled.

#### 1.7. Governance

- We've continued to unite as a Board to deliver 'best in class' governance. We welcomed two new external shareholder representatives to the Board – Michael McNicholas became the Non-Executive Director for OMERS, the Canadian pension fund and our largest shareholder, and Paul Donovan joined as the representative for QIC, BCI, PGM and Aquila. Both bring a wealth of experience and a skillset aligned with the delivery of our strategy.

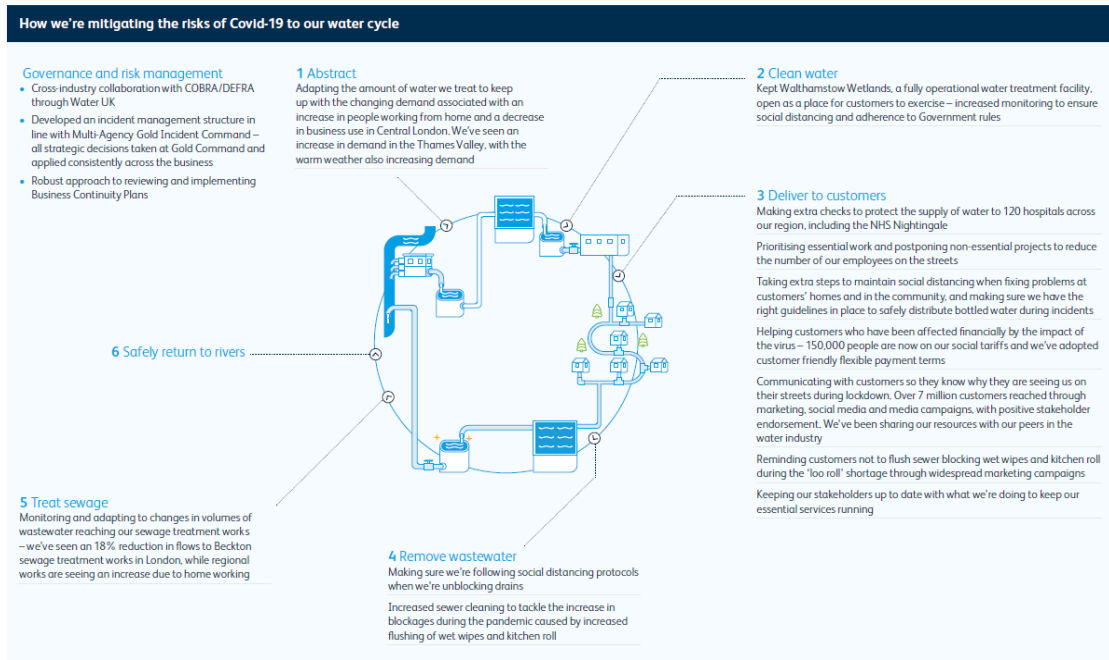
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<sup>1</sup> Underlying performance excludes amounts relating to Bazalgette Tunnel Limited (otherwise known as Tideway), the company responsible for constructing the Thames Tideway Tunnel 'supersewer'.

- During the recruitment process for our new Chief Executive Officer, Ian Marchant has continued to act as Interim Executive Chairman, with his tenure in the role covering the majority of 2019/20. To maintain high levels of governance during this period we appointed Nick Land as Deputy Chairman, and Ian will return to his role as Chairman when Sarah joins the business on 1 September 2020.
- Our external shareholders supported the Board's decision not to pay them any external dividends during the three years to 2019/20 as a commitment to improving performance in critical metrics. As such, they received zero dividends for the third consecutive year. The only dividends paid by the operating company, Thames Water Utilities Limited, were those paid to service £56.5 million of interest on external debt and working capital requirements at the holding company level.
- As we look to the future, we will be transparent about any dividends paid to our external shareholders. We will be clear about their level, how they relate to the delivery for customers, and why they have been awarded, in line with our dividend policy. We will also set out how any dividend compares to the returns our external shareholders would have received if our debt levels were lower.
- During the year, we've amended our remuneration policy to increase alignment with our revised Strategic Ambitions. For full details see our Combined Report – Annual Report, Annual Performance Report and Sustainability Report 2019/20.

## 1.8. Covid-19

- Given the ongoing uncertainty regarding the impact of Covid-19 on our workforce, our customers and our ability to work in the community on non-essential projects, our Executive team will regularly review our priorities to ensure they continue to balance our long-term goals and the short-term needs of our region. We will continue to work collaboratively with our regulators and other water companies to share learnings and manage the impact of the pandemic together.



How we're looking after our people	Working together with our regulators	Working with our stakeholders	Supporting the supply chain
<p>Looking after the health of our employees by ensuring the right PPE for those on the frontline, encouraging people to work from home where possible, and revising sick and dependent pay policies</p> <p>Managing our finances to avoid furloughing any employees so we're able to protect our people and keep our services running</p> <p>Monitoring absenteeism trends in crucial areas, so we can redeploy employees and provide increased training where necessary to ensure the resilience of our core essential services</p> <p>Digital investment over the last year has increased our remote working capability across the company, with call agents being able to work from home for the first time.</p> <p>Robust approach to internal communications to keep staff up to date with company activity and evolving protocols. Introduced a regular survey to understand how employees are feeling</p>	<p>We welcome our regulators' support during Covid-19 as we work together to support our customers, our people and society, and focus on our core activities. Covid-19 will have an impact on our year one priorities, for example the advice to customers about washing their hands more frequently to hinder the spread of the virus, conflicts with our performance incentive to reduce per capita consumption, and Ofwat has agreed to work with us to reassess our plans when the time is right.</p>	<p>Stakeholders want us to ensure a reliable service for customers and the environment, and to manage the impacts of unpredictable external events, such as the Covid-19 pandemic.</p> <p>We've maintained a frequent and constructive dialogue with key stakeholders, including Defra and the Greater London Authority, to explain our work to continue to deliver our services despite the constraints of restrictions on movement and contact.</p> <p>This contact has included our Operations Director acting as co-chair of the water sector's Platinum Incident Management group liaising with Defra; and participating in a weekly discussion convened by the GLA for London utility providers. These discussions, and many others, have helped us gather insights and factor them into our response.</p>	<p>During the Covid-19 pandemic we've continued to work closely with our supply chain to make sure they're well informed of our response to the impact of the virus and the safety measures we've put in place. We've been issuing a weekly update to them and have continued to engage with them about how confident they are in being able to continue functioning during the pandemic and to answer any questions they may have. We've been offering support, both in terms of assistance and adapting our ways of working to enable the supply chain to continue functioning effectively.</p>
			 <p>We illuminated our water tower in Tilehurst, Berkshire to show our support for the NHS and the key workers supporting the community and our region during the Covid-19 pandemic</p>

Please refer to our Prospectus supplement dated 5 June 2020 for more details relating to Covid-19 using the following link:

<https://www.thameswater.co.uk/about-us/investors/debt-information>

## 2. Regulatory and legal update

### 2019 Price Review

- We've completed our price review process with Ofwat to agree our business plan for the 2020 to 2025 regulatory period. While it's a very challenging plan, it's important we maintain our focus on our improving trajectory, work collaboratively with our regulator and provide certainty for the next five years.
- Appropriate investment in our water network will require us spending more than we've been allowed by Ofwat, which is something our Board and external shareholders support.
- As we move through the next regulatory period and the implementation of our plan for the next five years, we've set near-term priorities to help deliver our performance commitments.
- As part of the price review process for AMP6, Ofwat proposed a 'Totex sharing mechanism' for water companies, under which approximately half of any cumulative Totex under or overspend compared to the Ofwat allowance, would be shared with customers, through adjustments to their bills after 2020.
- As part of the PR19 Final Determination, Ofwat confirmed the 1 April 2020 adjustment to apply to RCV in respect of past outcome and delivery incentive (ODI) and totex performance, land sales and other items including IFRS16. The net downward adjustment is £193.3 million (2017/18 CPIH deflated prices), with the largest component being a sector-wide RCV reduction relating to an inflation mismatch within the 2010 to 2015 regulatory period Capital Incentive Scheme. Had this adjustment taken place on 31 March 2020, rather than 1 April per the regulatory framework, gearing would have been around 1% higher.

## 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.

TWUL has responded to two separate notices asking a number of questions with the last set having been responded to in mid-January 2020. On 30 June 2020, Ofwat wrote to TWUL, updating on progress and outlining next steps. We understand that Ofwat would like to meet with TWUL to discuss the case and a date is to be arranged for this.

## 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 (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, four reports have been submitted, in November 2018, May 2019, November 2019 and May 2020.

## Legal update

The Group is subject to commercial and legal claims that are incidental to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business.

The Group needs to determine the merits/strength of any litigation against it and the chances of a claim being successful, the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment.

There are claims against the Group arising in the normal course of business, which are subject to early stage correspondence between the parties and/or litigation. Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims that are subject to negotiated settlement or Court assessment. This includes evaluating the likelihood that an outstanding claim will succeed and to quantify the possible range of any financial settlement and outflow of economic benefits. There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

As at 31 March 2020, there were ongoing legal claims issued in respect of, amongst other things, refunds sought for fees paid for property search data provided as a non-appointed activity, where the claimants allege overcharging for drainage and water searches and claim that information should have been made available pursuant to the Environmental Information Regulations 2004, at a lower cost than that charged. The position is replicated across all other Water & Sewerage Companies in England and Wales, and we are all defending these claims. A defence has been filed denying any liability, however the matter is at too early a stage to provide further commentary on any financial position.



### 3. 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.

**Table 1 Current credit ratings**

Company	Moody's	Standard & Poor's
<b>TWUL – Corporate Family Rating</b>	Baa2 (stable)	N/A
<b>TWUF – Class A Issuer Rating</b>	Baa1 (stable)	BBB+ (negative)
<b>TWUF – Class B Issuer Rating</b>	Ba1 (stable)	BBB- (negative)

Driven by a challenging 2019 Price Review, the UK water sector has seen downward pressure on credit ratings over the last year.

Following similar rating actions taken with a number of peers, in March 2020, Moody's downgraded TWUL's Corporate Family Rating ("CFR") to Baa2 with stable outlook (2019: Baa1 with negative outlook). Moody's also downgraded the Company's senior secured (Class A) debt rating to Baa1 with stable outlook (2019: A3 with negative outlook) and subordinated (Class B) debt rating to Ba1 with stable outlook (2019: Baa3 with negative outlook).

In February 2020, S&P affirmed the Company's credit rating of BBB+ and BBB- (2019: BBB+ & BBB-) in respect of our senior secured (Class A) debt and our subordinated (Class B) debt respectively, with negative outlook (2019: negative outlook).

These credit ratings continue to enable us to access efficiently priced debt to fund our investment programme, which is an important factor in keeping bills affordable for our customers.

#### i) Recent financing activity

In April 2019, funding was received under TWUF's US private placement totalling c£227.3m equivalent. This is split across 7-year (\$106.0 million), 10-year (\$131.0 million) and 11-year (€50.0 million) maturities.

During May 2019, a £175.0 million (£125.0 million 5-year and £50.0 million 3-year) bilateral term loan facility was signed and funded in June 2019.

In August 2019, TWUL's 364-day liquidity facilities totalling £550.0 million were renewed until August 2020 (split: £400.0 million debt service reserve and £150.0 million operations and capital maintenance reserve).

In November 2019 TWUF extended its main Revolving Credit Facility "RCF" by one year to 30 November 2024. The RCF includes £1,432.1 million designated as a Class A facility and £214.3 million designated as a Class B facility, a total of £1,646.4 million. 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.

Our latest GRESB score is 86 out of 100, ranking us 13th globally out of 393 infrastructure companies and top for water and sewerage companies. This score neither resulted in a penalty nor a reward.

In November 2019, TWUL completed the drawdown of a £189.2 million term loan facility, split across 8-year, 10-year and 12-year maturities.

In December 2019, a £300.0 million 3.5-year Class B term loan facility was signed, with £150.0 million drawn in March 2020.

Since 31 March 2020, TWUF has:

- Issued a £350m 20-year Class A bond and £40m 30-year Class A bond
- Signed a £110m 3.5-year Class A Term Loan

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 lent internally and used to repay intercompany borrowings owed to TWUL<sup>2</sup>. Kemble Water Finance Limited issued a £50 million note purchase agreement in July 2020 maturing in July 2027, and entered into a note purchase agreement in August 2020 to issue a further £50 million maturing in August 2028.

During the year ended 31 March 2020 European Investment Bank index-linked Class A loans of £300.0m (consisting of five £60.0 million loans) matured and were repaid together with accrued accretion. A £100.0 million Class A floating bilateral loan also matured and was repaid.

## ii) Bonds outstanding at 31 March 2020

Table 2 Class A and B bonds outstanding at 31 March 2020

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 31 Mar 2020 (£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	290.5
TWUF	EUR	113	2.30%	18/07/2022	A	CPI Linked Bond	108.0
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	142.5
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	50.4
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	44.8
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	149.4
TWUF	GBP	50	3.85%	15/12/2040	A	LPI Linked Bond	66.6
TWUF	GBP	500	5.50%	11/02/2041	A	Fixed Rate Bond	500.0

<sup>2</sup> This was effected via intercompany loans including a £222.5 million principal repayment of the intercompany loan due to Thames Water Utilities Limited by Thames Water Utilities Holdings Limited, with the remainder used to pay the accrued interest associated with that intercompany loan.

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 31 Mar 2020 (£m)
TWUF	GBP	50	1.98%	28/08/2042	A	RPI Linked Bond	70.4
TWUF	GBP	55	2.09%	06/10/2042	A	RPI Linked Bond	74.9
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	140.9
TWUF	GBP	200	1.82%	28/08/2049	A	RPI Linked Bond	281.7
TWUF	GBP	300	1.68%	11/07/2053	A	RPI Linked Bond	448.6
TWUF	GBP	300	1.68%	11/07/2055	A	RPI Linked Bond	448.6
TWUF	GBP	200	1.77%	28/08/2057	A	RPI Linked Bond	281.7
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	493.0
<b>Total</b>							<b>8,343.4</b>

The face value of Index Linked Bonds as at 31 March 2020 included accretion of £846.1 million. The £200 million TWUF bond with maturity date of 30 June 2020 has now been repaid.

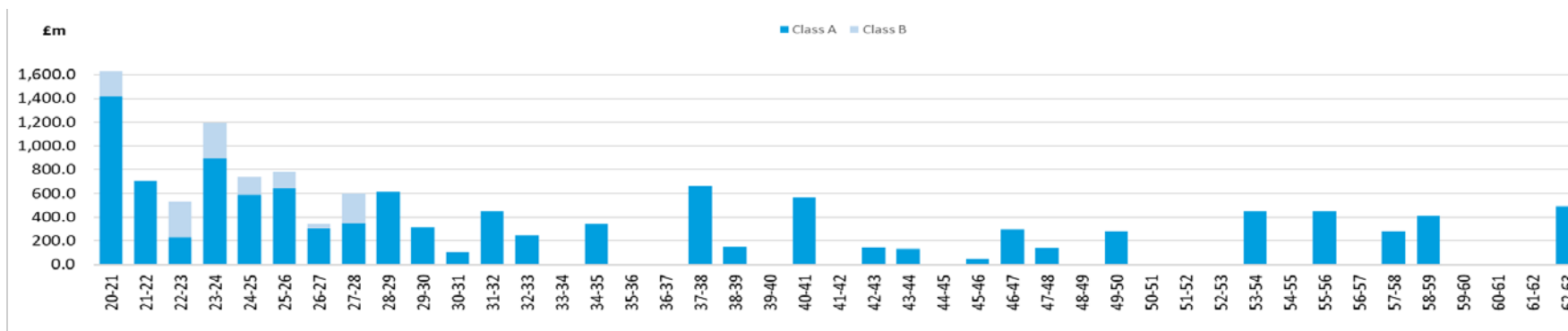
### iii) Net debt reconciliation

Table 3 Net debt reconciliation – 31 March 2020

	£m
Face Value Bonds including accretion Class A	7,493.4
Face Value Bonds including accretion Class B	850.0
<b>Total Face Value Bonds including accretion</b>	<b>8,343.4</b>
Class A USPP Notes	1,457.5
Class A RPI linked loans (including accretion of £147.8 million)	943.1
Accretion on Index Linked Swaps	244.1
Class A Floating Rate Loans	1,714.2
Class A Cross-currency swaps	(133.5)
Class B Loans	543.3
Less Cash and cash equivalents	(1,058.4)
IFRS 16 Lease Liability	70.3
<b>Net Debt as per Compliance Certificate</b>	<b>12,124.0</b>
Unamortised debt issuance costs and discount	(72.5)
Amounts owed to group undertakings	5.5
Derivative financial liabilities	(110.6)
Interest payable on borrowings	166.0
IFRS 9 transition adjustment	25.1
<b>Net Debt as per accounts</b>	<b>12,137.5</b>

#### iv) Maturity profile and headroom analysis

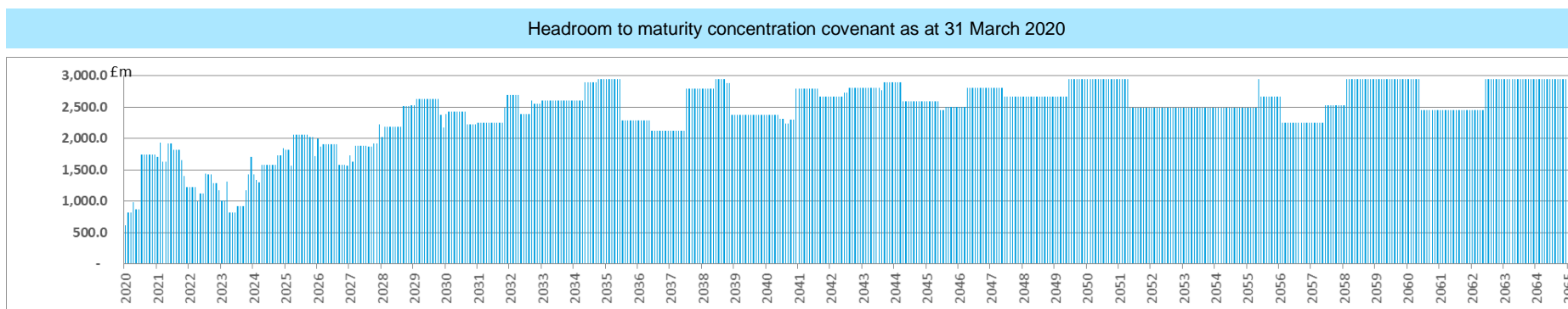
**Graph 1 Debt maturity profile**  
As at 31 March 2020



At 31 March 2020, £1,200.0 million out of the £1,432.1 million Class A revolving credit facility was drawn and £214.3 million out of the £214.3 million Class B revolving credit facility was drawn, and TWUL had cash balances and liquid resources of £1.05 billion. In April 2020, £350.0 million of the Class A drawdown and the £214.3 million Class B drawdown were repaid. In May 2020, a further £40.0 million of the Class A drawdown was repaid.

**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. The graph includes RCF drawdowns according to the drawdown end date. Following a STID proposal in June 2020, in future reports RCF drawdowns will be reflected according to the facility maturity date.



## 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.

**Table 4 Group & TWUL Derivative summary valuations (Mark to Market 'MtM')**

Derivative type	Group MtM as at 31 March 2020 (£m)	TWUL MtM as at 31 Mar 2020 (£m)
<b>Cross currency swaps</b>	125.9	1.9
<b>Interest rate swaps</b>	(164.5)	(164.5)
<b>Index - linked swaps</b>	(648.0)	(303.2)
<b>Total</b>	<b>(686.6)</b>	<b>(465.8)</b>

Foreign currency debt instruments are converted to Sterling liabilities with cross currency swaps as illustrated below. Swaps with mutual break clauses amount to 1.0% at 31 March 2020 (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 2020 (£m)
TWUF	USD	150	96.6	28/02/2022	24.7
TWUF	EUR	113	100	18/07/2022	(0.4)
TWUL	USD	55	38.7	22/03/2023	7.5
TWUF	USD	200	128.8	27/02/2024	34.0
TWUF	CAD	250	143.6	12/12/2024	1.2
TWUL	USD	285	200.4	22/03/2025	44.1
TWUF	USD	106	82.0	13/04/2026	9.3
TWUF	USD	250	161.0	01/03/2027	43.1
TWUF	USD	131	101.3	13/04/2029	13.3
TWUF	EUR	50	44.0	13/04/2030	(1.2)
TWUL	JPY	20,000	153.6	20/08/2038	(49.7)
<b>Total</b>			<b>1,250.0</b>		<b>125.9</b>

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.

**Table 6 Interest rate swaps**

Issuer	Notional £m	Start Date	Maturity Date	MtM as at 31 Mar 2020 (£m)
<b>Forward starting interest rate swaps (pay fixed)*</b>				
TWUL	150.0	16/03/2018	16/03/2025	(20.7)
TWUL	500.0	13/09/2016	14/03/2030	(35.4)
TWUL	200.0	14/07/2017	14/03/2030	(29.2)
TWUL	150.0	16/03/2018	14/03/2030	(23.6)
TWUL	300.0	14/03/2019	14/03/2030	(38.1)
TWUL	250.0	13/09/2019	14/03/2030	(35.3)
TWUL	300.0	14/07/2017	16/03/2030	(16.4)
TWUL	400.0	16/03/2017	16/03/2030	(53.4)
	<b>2,250.0</b>			<b>(252.1)</b>
<b>Interest rate swaps (receive fixed)</b>				
TWUL	500.0	24/01/2017	14/03/2030	19.4
TWUL	250.0	03/05/2017	14/03/2030	9.0
TWUL	200.0	17/07/2017	14/03/2030	6.4
TWUL	143.6	12/12/2017	14/03/2030	6.9
TWUL	350.0	22/03/2018	14/03/2030	18.5
TWUL	227.3	14/03/2019	14/03/2030	13.7
TWUL	100.0	17/07/2017	16/03/2030	3.9
TWUL	150.0	22/03/2018	16/03/2030	9.8
	<b>1,920.9</b>			<b>87.6</b>
<b>Total</b>	<b>4,170.9</b>			<b>(164.5)</b>

\*All forward starting swaps have already commenced.

In July and August 2019, we extended the maturity of £4.0 billion fixed and floating interest rate swaps to 2030.

**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 2020 (£m)
TWUL	200	210.9	09/02/2032	09/02/2038	Maturity	(29.4)
TWUL	150	206.1	At maturity	28/09/2037	-	(87.2)
TWUL	250	206.1	28/09/2023	28/09/2037	12 years, maturity	(137.2)
TWUL	200	206.1	28/09/2022	28/09/2037	Every 5 years	(54.4)
TWUL	94.1	215.1	20/08/2023	20/08/2038	Every 5 years	(16.4)
TWUL	20	258.8	At maturity	31/03/2026	-	(4.3)
TWUL	114.8	264.8	At maturity	09/04/2058	-	(1.1)
TWUL	50	289.5	At maturity	24/01/2029	-	0.4
TWUL	500	289.5	At maturity	11/02/2029	-	6.7
TWUL	100	289.5	At maturity	22/03/2029	-	1.1
TWUL	200	289.5	At maturity	31/10/2029	-	1.9
TWUL	100	291.7	At maturity	01/11/2029	-	1.0
TWUL	100	291.7	At maturity	13/11/2029	-	1.0
TWUL	100	291.7	At maturity	19/11/2029	-	0.4
TWUL	250	289.5	At maturity	31/10/2024	-	3.6
TWUL	300	289.5	At maturity	25/10/2024	-	5.3
TWUL	200	289.5	At maturity	29/10/2024	-	2.6
TWUL	190	291.0	At maturity	02/12/2024	-	2.8
TWUF*	100	215.3	30/06/2020	31/12/2039	2024, 2029, maturity	(70.0)
TWUF	200	215.3	31/12/2024	31/12/2039	Every 5 years	(150.9)
TWUF	100	218	17/02/2025	17/02/2060	Every 5 years	(102.3)
TWUF	100	235.2	18/07/2022	18/07/2039	10 years, maturity	(33.5)
	<b>3,618.9</b>					<b>(659.9)</b>

\* The notional amount of this swap reduces from £100 million to £35 million on 31/12/2029.

In October and November 2019, we transacted a number of index-linked swaps with a total notional value of around £2.1 billion with maturities of 5 years and 10 years. These swaps help manage inflation risk and effectively convert existing debt which was issued at a fixed nominal rate into a fixed real rate with the underlying principal amount linked to inflation. All of the swaps transacted are structured to pay the inflation accretion amount at maturity.

In November 2019, we also extended the maturity of £400.0 million notional of index-linked swaps.

For the 12-month period ended 31 March 2020, these derivative transactions reduced interest costs on a cash basis by £47.1 million, although this will be offset by increased costs in later years.

The associated net finance expense has decreased by £34.1 million to £334.5 million (2019 restated: £368.6 million), and we expect this to result in a material ongoing reduction in interest costs over the

next 5 years, mainly driven by interest income generated from the new and restructured index-linked swaps.

The following EUR CPI linked swap has been entered into to convert the coupon on July 2022 EUR bond to floating EUR, subsequently converted to GBP.

Issuer	Notional €m	Base CPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 31 Mar 2020 (€m)
TWUF	113.0	96.3	At maturity	18/07/2022	-	11.9
	<b>113.0</b>					<b>11.9</b>

None of the index linked swaps contain breaks. Accretion as a percentage of Class A net indebtedness is 2.29% (versus a limit of 8% of Class A net indebtedness).

#### vi) Available facilities

As at 31 March 2020, TWUL had committed facilities of £2,685.6 million (£932.1 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 (£232.1 million undrawn) revolving credit facility (RCF) expiring November 2023.
- £300.0 million (£150.0 million undrawn) Class B term loan facility.
- £189.2 million (drawn) Class A term loan facility
- £550.0 million 364-day undrawn liquidity facilities (split: £400.0 million debt service reserve and £150.0 million operations and capital maintenance reserve).

Since 31 March 2020, TWUL increased its committed facilities through a £110.0 million (undrawn) Class A term loan facility signed in May 2020 with a 3.5 years maturity.

#### 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 and meets the minimum rating requirement.

#### viii) Accretion charge

The income statement charge for the 12 months to 31 March 2020 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 2020 (£m)	Accretion Paydowns 12 Months to Mar 2020 (£m)	Total Cumulative Accretion (£m)
<b>Index-linked Bonds</b>	66.9		846.1
<b>Index-linked Loans</b>	36.7		147.8
<b>Index-linked Swaps</b>	43.1	75.9	206.8
<b>Index-linked Swaps with 5 year accretion paydowns</b>	22.4	47.3	37.3
<b>Total</b>	<b>169.1</b>	<b>225.6</b>	<b>1,238.0</b>

**ix) Cash and Authorised Investments**

As at 31 March 2020, the following cash and cash equivalent investments were held.

**Table 9 Cash and Authorised Investments**

Counterparty type	TWUL (£m)	TWUF (£m)	Total (£m)
<b>Cash and Cash Equivalents (Including AAA Money Market Funds)</b>	755.8	2.6	758.4
<b>Short Term Investments (Bank Deposits)</b>	300.0	-	300.0
<b>Total cash and investments</b>	<b>1,055.8</b>	<b>2.6</b>	<b>1,058.4</b>

**4. Dividends**

No distributions to external shareholders were made (2018/19: £nil). During the year, dividends of £56.5 million (2018/19: £60.0 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.

**5. 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.

**6. 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 2020 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 2020**

<b>Senior net debt</b>		<b>Class A net debt</b>	
<b>31 March 2020 (£m)</b>		<b>31 March 2020 (£m)</b>	
<b>Senior net debt per accounts</b>	<b>12,137.5</b>	<b>Senior net debt per accounts</b>	<b>12,137.5</b>
		Less Class B debt	(1,393.3)
		Less Lease Liability	(70.3)
<b>Less Amounts owed to group undertakings</b>	<b>(5.5)</b>	Less Amounts owed to group undertakings	(5.5)
<b>Less accrued interest</b>	<b>(166.0)</b>	Less accrued interest	(166.0)
<b>Add back unamortised debt issuance costs</b>	<b>72.5</b>	Add back unamortised debt issuance costs	72.5
<b>Add derivative financial liabilities</b>	<b>110.6</b>	Add derivative financial liabilities	110.6
<b>Less IFRS 9 transition Adjustment</b>	<b>(25.1)</b>	Less IFRS 9 transition Adjustment	(25.1)
<b>Senior net debt per compliance certificate</b>	<b>12,124.0</b>	<b>Class A net debt per compliance certificate</b>	<b>10,660.4</b>

**Table 11a Conformed Net Cash Flow**

	<b>31 March 2020 (£m)</b>
<b>Cashflow from operations</b>	<b>1,126.1</b>
<b>Exceptional items</b>	<b>27.7</b>
<b>Reversal of capex creditor</b>	<b>-</b>
<b>Add back Impact of IP revenues and payments</b>	<b>-</b>
<b>Add Deferral of K</b>	<b>47.8</b>
<b>Conformed Net Cash Flow</b>	<b>1,201.6</b>

**Table 11b Net interest paid - breakdown of calculation for the year to 31 March 2020**

	<b>31 March 2020 (£m)</b>
Interest paid per accounts	291.8
Interest received per accounts	(88.8)
<b>Net interest paid per accounts</b>	<b>203.0</b>
Capitalised borrowing costs	97.6
Facility fees paid	5.9
Intercompany interest received	37.5
<b>Net interest paid per covenant</b>	<b>344.0</b>

TWUL receives interest on its £1,752.2 million (31 March 2019: £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 2020, £37.5 million interest was received.

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**

Test date	31 March 2020	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Water and wastewater depreciation	(552.8)	(611.1)	(639.2)	(661.0)	(708.5)	(720.1)
Factor to convert to outturn prices	1.0572	1.0471	1.0648	1.0853	1.1070	1.1292
Depreciation (Outturn prices)	(584.4)	(639.9)	(680.6)	(717.3)	(784.3)	(813.2)

We confirm that in respect of the Calculation Date on 31 March 2020, by reference to the most recent financial statements that we are obliged to deliver to you 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 2020	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Class A RAR	72.4%	72.7%	73.2%	71.9%	72.7%	72.6%
Conformed Senior RAR	82.3%	82.3%	81.9%	81.0%	81.7%	81.4%

Test date	31 March 2020	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Conformed Class A ICR	3.94	5.31	4.75	5.71	5.28	5.42
Additional Conformed Class A Adjusted ICR	2.02	1.67	2.04	2.65	2.22	2.21
Additional Conformed Senior Adjusted ICR	1.79	1.35	1.72	2.16	1.86	1.87
Additional Conformed Class A Average Adjusted ICR	1.91	2.12	2.30	2.36	2.36	2.36
Additional Conformed Senior Average Adjusted ICR	1.62	1.74	1.91	1.96	1.96	1.96

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.

## Accounting Change

On 14 July 2020 we notified the Security Trustee of an Accounting Change as, under the Common Terms Agreement, there was a material change to the basis on which TWUL's audited financial statements are prepared.

Leak detection is an activity conducted to proactively identify improvements to our water network through pipe repair or replacement. Since the transition to IFRS in 2015/16, 100% of our leak detection costs have been classified as operating expenditure.

Following a detailed review of cost classification by management during 2019/20, it has been determined that certain elements of our leak detection activity are enabling works for our water network capital programme and therefore meet the criteria for capitalisation.

This has resulted in a change of accounting policy and therefore a restatement of our 2018/19 comparative figures within the 2019/20 financial statements has been presented to allow meaningful year-on-year comparison.

The effect of the Accounting Change is that within our 2019/20 financial statements this change in accounting policy has resulted in £20.7m of costs being capitalised which would previously have been recognised as operating expenditure. This improves 2019/20 operating cash flow by £20.7m due to the leak detection expenditure being reported as capital investment in the cash flow statement. The overall movement in cash flow for 2019/20 has not changed, only the categorisation within the cash flow statement. The RAR ratios related to gearing do not change, only the Interest Cover Ratios are affected by the Accounting Change. The impact is shown in the table below.

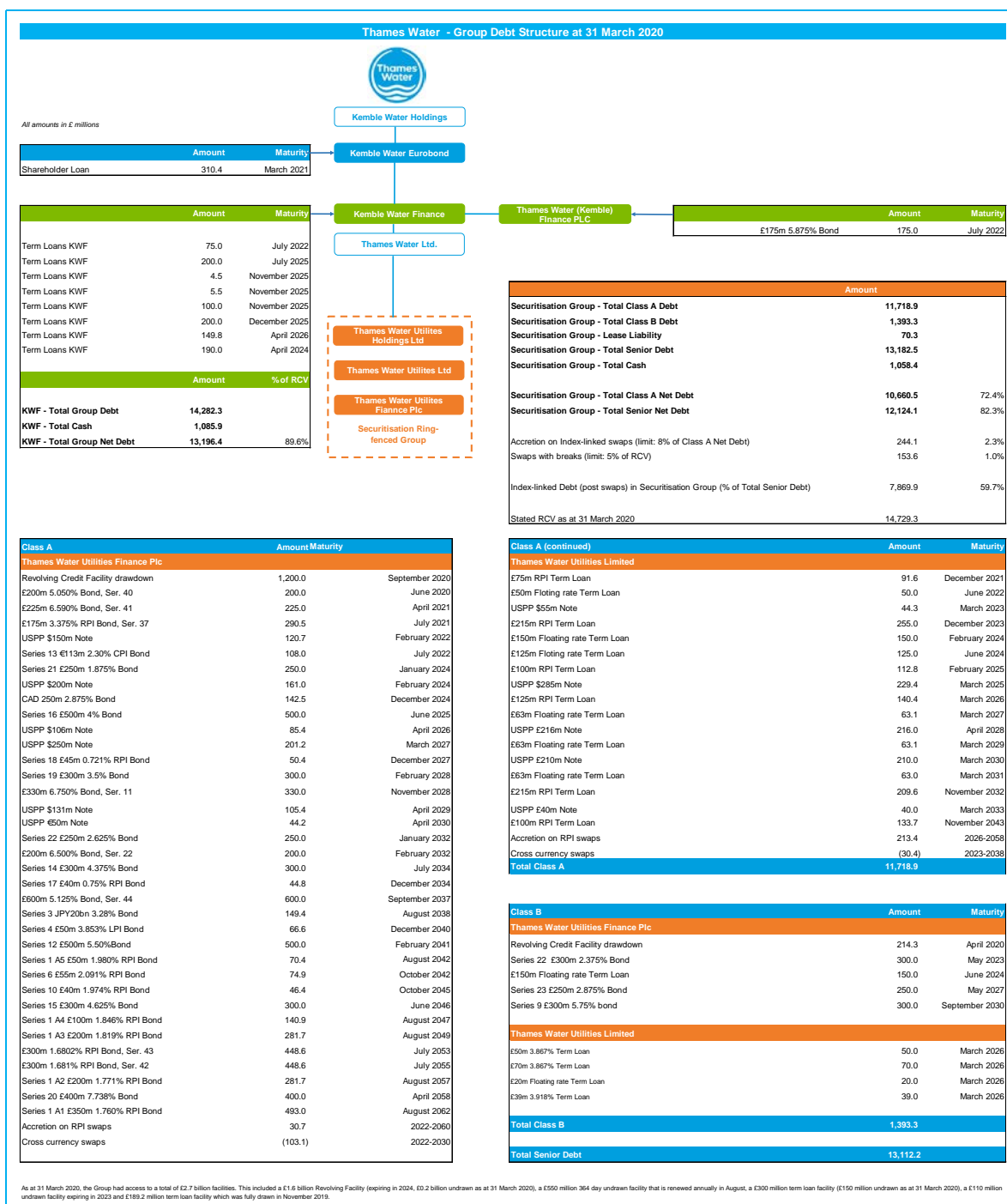
Ratio as at 31 March 2020	Ratio (before taking into account the Accounting Change)	Ratio level (after taking into account the Accounting Change)
Conformed Class A ICR	3.87	3.94
Additional Conformed Class A Adjusted ICR	1.96	2.02
Additional Conformed Senior Adjusted ICR	1.73	1.79
Additional Conformed Class A Average Adjusted ICR	1.89	1.91
Additional Conformed Senior Average Adjusted ICR	1.60	1.62

Following discussions with the Security Trustee, no amendments to the CTA are required as a result of the Accounting Change

## 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, there is a new sub-cap for operating leases (included as part of the consent process) of 2 per cent. of RCV. At 31 March 2020 the lease liability was 0.5% of RCV.

## 7. Group debt structure (as at 31 March 2020)



We also confirm that:

- (a) No Default or Potential Trigger Event is outstanding; and
- (b) that TWUL's insurances are being maintained in accordance with the Common Terms Agreement.

Yours faithfully,



BRANDON RENNET

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Chief Financial Officer and Director

For and on behalf of

THAMES WATER UTILITIES LIMITED



TOM BOLTON

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Director

For and on behalf of

THAMES WATER UTILITIES FINANCE PLC

## Appendix 1 Financial Ratio Calculations

Calculations for forward looking ratios for March 2021 to March 2025 have been provided to the 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

Calculations for forward looking ratios for March 2021 to March 2025 have been provided to the 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 2019/20 financial year TWUL continued to include costs within its bills to wastewater customers for the construction of the Thames Tideway Tunnel (TTT). £64.3 million revenue 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.

The Tideway Integration Group (TIG) has worked collaboratively with TTT, while achieving major milestones along the way. This year saw significant progress at the three TTT “System Works” sites with all civil construction works planned for AMP6 completed at Shad Thames, Bekesbourne Street and Beckton Sewerage Treatment Works, ahead of the dates required by TTT. There has also been significant planning, preparation and investment in critical assets which support TTT commissioning planned for AMP7. TIG has worked closely with a number of key stakeholders, including the Environment Agency, with whom new Operating Techniques were agreed for the London Tideway Tunnels system.

BTL and their contractors have made good progress over the last 12 months. In February 2020 they marked a half way point with 12.5km of the new tunnel constructed. The pandemic brought tunnelling to a stop at the end of March 2020 with 14km of the tunnel constructed, with works recommencing in April 2020 (20/21 financial year) under COVID 19 working practices.

A total of six tunnel boring machines (TBMs) are being used to create London's super sewer, with two already finished tunnelling. TBM D (Selina) and the TBM for the Greenwich Connection Tunnel (Annie) are forecast to start tunnelling in the second half of 2020. Tideway have fully excavated 16 of the project's 21 sites. Of the 24 shafts to be built, there are two shafts with completed secondary lining, 20 shafts excavated to full depth with base slab poured and two shafts under construction.

## Appendix 4 Kemble Water Finance

### Consolidated Net Debt Reconciliation

	£m
TWUL Face Value Bonds including accretion Class A	7,493.4
TWUL Face Value Bonds including accretion Class B	850.0
TWKF Face Value Bonds	175.0
<b>Total Book Value Bonds including accretion</b>	<b>8,518.4</b>
Class A USPP Notes	1,457.5
Class A RPI linked loans (including accretion of £147.8 million)	943.1
Accretion on RPI Linked Swaps	244.1
Class A Floating Rate Loans	1,714.2
Class A Cross-currency swaps	(133.5)
Class B Loans	543.3
KWF Floating Rate Loans	465.0
KWF Fixed Rate Loans	459.9
Less Cash Investments	(1,115.2)
<b>Cash Held by non-covenant entities</b>	<b>29.3</b>
<b>IFRS 16 Lease Liability</b>	<b>70.3</b>
<b>KWF Net Debt as per Compliance Certificate</b>	<b>13,196.4</b>
Subordinated Loan from Kemble Water Eurobond Plc (Parent)	3,100.6
Unamortised debt issuance costs and discount	(87.0)
Fair Value Adjustment on acquisition to loans	166.5
Cash Held by non-covenant entities	(29.3)
Derivative financial liabilities	(110.6)
Interest payable on amounts owed to group undertakings	3,232.0
Interest payable on secured bank loans, private placements and other financing	183.0
IFRS 9 transition adjustment	25.1
<b>KWF Net Debt as per accounts at 31 March 2020</b>	<b>19,676.7</b>

## Appendix 4 Kemble Water Finance (continued)

### Financing

During the prior year, ended 31 March 2019, Kemble Water Finance Limited (KWF) completed £649.8 million of new financing across 5 and 7-year tenors. This included £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.

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<sup>3</sup>.

Kemble Water Finance Limited issued a £50 million note purchase agreement in July 2020 maturing in July 2027, and entered into a note purchase agreement in August 2020 to issue a further £50 million maturing in August 2028.

During March 2020, Moody's concluded their review of ratings for the Group, moving KWF guaranteed debt from negative to stable outlook (still rated B1). During April 2020 Fitch downgraded KWF's rating to B+ from BB-.

### Dividends

KWF did not pay any dividends in the period.

### The ratios

	Default Level	31 March 2020
Cash Flow less Depreciation		669.7
Total Interest Service		404.8
Group PMICR	<b>1.05</b>	<b>1.65</b>

	Default Level	31 March 2020
Total Net Debt		13,196.4
RCV		14,729.3
RAR	<b>95.0%</b>	<b>89.6%</b>

	Default Level	31 March 2020
Group EBITDA		1,192.7
Total Interest Service		404.8
Interest Cover Ratio	<b>2.0</b>	<b>2.95</b>

	Lock-Up Level	31 March 2020
Obligor Interest Cover Amount (OICA)		138.7
Projected Interest Service Required Amount (PISRA)		55.4
Ratio of OICA/PISRA	<b>OICA &lt; PISRA</b>	<b>250.2%</b>

<sup>3</sup> This was effected via intercompany loans including a £222.5 million principal repayment of the intercompany loan due to Thames Water Utilities Limited by Thames Water Utilities Holdings Limited, with the remainder used to pay the accrued interest associated with that intercompany loan.

## Contact details

For more details please contact us at:

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