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CREDIT OPINION
30 March 2023

Update

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RATINGS

Thames Water (Kemble) Finance PLC

Domicile	United Kingdom
Long Term Rating	B1
Type	Senior Secured - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Thames Water (Kemble) Finance PLC

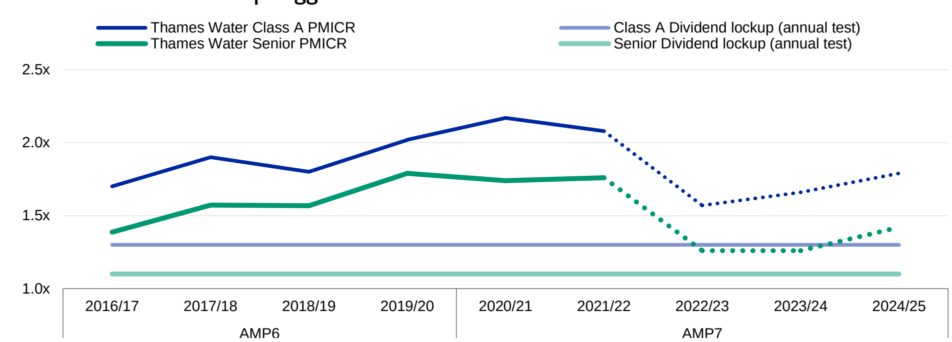
Update following Ofwat decision to tighten regulatory ring-fence and negative outlook

Summary

The credit quality of Thames Water (Kemble) Finance PLC (Kemble, senior secured B1 negative), the finance subsidiary of Kemble Water Finance Limited, is supported by the low business risk profile of the group's main operating subsidiary, Thames Water Utilities Ltd. (Thames Water, CFR Baa2 stable) – the monopoly provider of water and wastewater services in its area – and the stable and transparent regulatory framework for the UK water sector. It is constrained by (1) the high level of gearing at Thames Water and other debt in the group including the Kemble notes; (2) Thames Water's track record of weak operational performance; (3) the terms of Thames Water's financing structure, which include various cash-trapping triggers; and (4) provisions of Thames Water's licence, which limit the operating company's ability to make payments to Kemble and will be tightened from 1 April 2025. We believe the expected loss for the Kemble notes would be very high if a default were to occur, given their subordinated position and the security granted to lenders of Thames Water.

The five-year regulatory period that started in April 2020 (AMP7) brought a significant cut in allowed returns, material revenue reductions as a result of operational underperformance in AMP6, and difficult performance targets, which we expect to result in additional financial penalties and overall weaker credit quality for the Kemble group. Cost inflation will further weaken cash flows in the current financial year. Nevertheless, Thames Water is likely to maintain some headroom against lock-up ratio triggers.

Exhibit 1
While cash flows are weakening, we expect Thames Water to maintain headroom against financial covenant lock-up triggers



Thames Water's PMICR represents the company's forecast ratios as presented in its September 2022 investor report.
Source: Thames Water investor reports

On 20 March 2023, Ofwat, the economic regulator for water and wastewater companies in England and Wales, published its decision to tighten the regulatory ring-fence in companies' licences. With effect from 1 April 2025, the rating trigger resulting in a cash lock-up under the licence will be Baa2 negative as opposed to Baa3 negative currently. Additional licence changes will also allow the regulator to take enforcement action where companies do not link their dividend payments to operational performance or fail to be transparent about their dividend policy. We believe that these changes increase the risk of a distribution block for Thames Water, given its current rating level as well as its below-average performance track record.

Credit strengths

» Kemble's key operating subsidiary (Thames Water) generates stable cash flow from the provision of monopoly water and wastewater services under a well-established, transparent and predictable regulatory regime.

» Shareholder support in the form of up to £1.5 billion additional equity to facilitate investments in improving service performance ahead of the 2024 regulatory price review.

Credit challenges

» Lower allowed return, inflationary cost pressures and more demanding efficiency and performance targets in AMP7, coupled with a track record of weak operational performance, increase Thames Water's cash flow volatility.

» Cash flow is subject to distribution lock-up covenants at the operating company level, which increases the probability of default for Kemble.

» Tighter rating trigger for distribution blocks under the licence increases risk of Thames Water lock-up from 1 April 2025.

» Very high consolidated financial leverage, up to around 90% of Thames Water's regulatory capital value (RCV).

» Deeply subordinated nature of Kemble's creditors' claims against operating cash flow reduces recovery prospects.

Rating outlook

The outlook is negative, reflecting the increased risk of a distribution block being triggered under Thames Water's licence, when the new, tighter rating trigger level becomes effective from 1 April 2025. The likelihood of an actual lock-up will be influenced by (1) Thames Water's ongoing turn-around programme, which aims to improve the operating company's performance; (2) Ofwat's 2024 price review for the five-year regulatory period, which will commence on 1 April 2025, and associated cost efficiency and performance challenges; and (3) the operating company's overall financial flexibility. In addition, the liquidity and financial strategy at Kemble company level will determine how long the holding company may be able to withstand a (temporary) distribution block. We could stabilise the outlook at the current rating level upon a strengthening of the business or financial risk profile of the operating company and/or sizeable liquidity support at the holding company, including from additional shareholder commitment, that would allow it to sustain a multi-year dividend block.

Factors that could lead to an upgrade

Given the current negative outlook as well as the deeply subordinated nature, structurally as well as contractually, of the Kemble notes in the context of the operating group's financing structure and regulatory protections, we do not expect any upward rating pressure for the Kemble notes.

Factors that could lead to a downgrade

Kemble's rating could be downgraded if the ratings of Thames Water were downgraded, or the risk of a dividend lock up at the operating company was not reduced, absent additional liquidity at the holding company to increase its resilience to dividend blocks. Financial triggers in Thames Water's financing structure include (1) Class A RCV gearing in excess of 75% or senior RCV gearing in excess of 85%, or (2) Class A adjusted interest cover ratio below 1.3x or senior adjusted interest cover ratio below 1.1x in a single year. Rating triggers, in addition to any licence provisions, include a Class A or corporate rating below Baa3/BBB- from any agency.

In assessing the downward rating potential we will consider the holding company's liquidity position, the likelihood of potential shareholder support as well as the potential for the regulator to permit certain distributions upon the licenced company's request.

Key indicators

Exhibit 2
Thames Water (Kemble) Finance PLC
Key metrics represents the consolidated accounts of Kemble Water Finance Limited

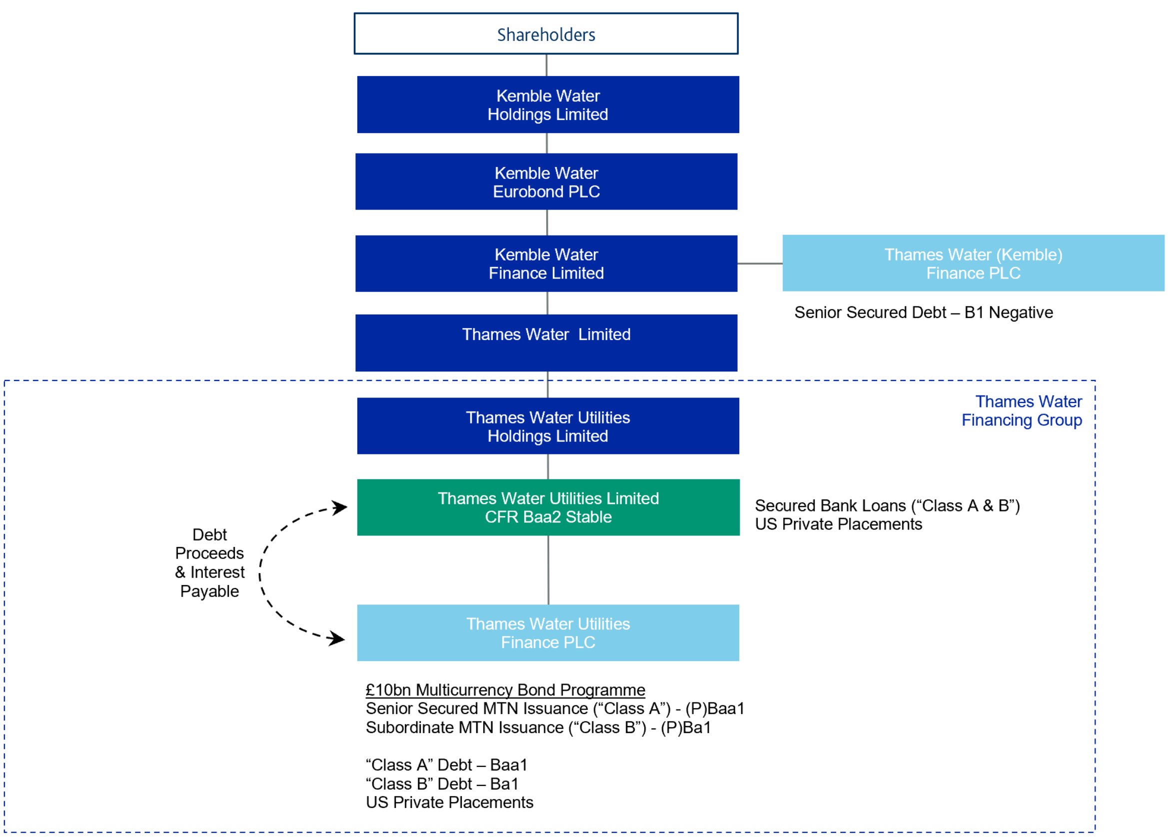
	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23 E
Adjusted Interest Coverage Ratio	1.3x	1.3x	1.6x	1.4x	0.7x	0.5x-0.8x
Net Debt / Regulated Asset Base	88.1%	89.3%	91.3%	92.3%	90.7%	88%-91%
FFO / Net Debt	5.3%	5.2%	6.4%	6.0%	4.3%	3%-5%
RCF / Net Debt	5.3%	5.2%	6.4%	6.0%	4.3%	3%-5%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's most common ratio terms please see the accompanying User's Guide. Moody's projections are our opinion and do not represent the view of the issuer.
Source: Moody's Financial Metrics™

Profile

Thames Water (Kemble) Finance PLC (Kemble) is the financing subsidiary of Kemble Water Finance Limited, which owns Thames Water through intermediate holding companies including Thames Water Limited. Thames Water is the largest of the 10 water and sewerage companies in England and Wales by both RCV and the number of customers served. It provides drinking water to around nine million customers and sewerage services to around 15 million customers in London and the Thames Valley.

Exhibit 3
Simplified organisational structure



Source: Moody's Investors Service

Kemble is ultimately owned by a consortium of national and international infrastructure and pension funds, the largest being OMERS (31.8%) and the Universities Superannuation Scheme (19.7%).

Detailed credit considerations

Credit quality of operating subsidiary, Thames Water, is a key credit driver

Kemble's credit quality is a function of (1) the low business risk of its key operating subsidiary, Thames Water; (2) very high leverage at the Kemble group level, up to 90% of Thames Water's RCV; and (3) its deeply subordinated position in relation to operating cash flow as well as recovery proceeds in a default scenario pertaining to creditors at Thames Water.

Ofwat's final determination for Thames Water in AMP7 included a significant cut in allowed cash returns to 2.42% at the start of the current regulatory period in April 2020, which incorporates the regulator's decision to only link half of the existing regulatory assets as at March 2020 to the Retail Prices Index (RPI), with the remainder and any new additions linked to the Consumer Prices Index adjusted for housing costs (CPIH). As the share of regulatory assets linked to CPIH grows over time, we estimate that most companies will have an average allowed cash return of around 2.5% over AMP7. For comparison and on a like-for-like RPI-stripped basis, allowed returns will fall by close to 50% to 1.92% (1.96% including retail margin) in AMP7 from 3.6% (3.74% including the retail margin) in AMP6 (April 2015 - March 2020). Thames also faces a reduction in total expenditure allowances compared with the company's original proposals, and difficult performance targets that we expect will lead to financial penalties for companies, like Thames Water, with a track record of weaker operational performance.

Recent macroeconomic development, including inflationary cost pressures and rising interest rates, will further weaken financial metrics, particularly in the current financial year to March 2023. While we expect cash flows to improve over time with higher inflation, headline CPIH inflation, which is used to inflate bills, may not fully offset the cost increases in power, chemicals or materials.

The combination of lower returns for AMP7, macroeconomic pressures and underperformance penalties already incurred are weakening the key credit metrics for the Kemble Water group in the current regulatory period.

In December 2022, Ofwat published its final methodology for the 2025-30 period (AMP8), outlining its approach to setting allowed returns, incentivising operational performance and establishing cost targets for the five-year regulatory period commencing on 1 April 2025 (see Regulated Water Utilities – United Kingdom: PR24 methodology increases risk for weak performers, 16 December 2022). The regulator's early view of the cost of capital, based on average market conditions during September 2022, is 3.29% at the appointee level, an increase from the current period. Ofwat also confirmed that it will transition to full CPIH indexation of companies' RCV in PR24. Because CPIH is structurally lower than RPI, the "early view" of the cost of capital implies an approximately 30% higher return in cash terms, compared to the current period, and may alleviate some of the pressure on interest coverage metrics despite rising rates.

However, even if allowed returns increase from 1 April 2025, AMP8 will present challenges around efficient cost allowances, because Ofwat will base its assessment on the most efficient companies, with an added frontier shift. Underperformers will not receive additional funding to meet required standards that they have already been funded for. Operational incentives, particularly around customer service performance, will also become more powerful, increasing further the downside for below average performers, such as Thames Water.

Some headroom against contractual lock-up covenants at Thames Water...

Despite weaker returns and increasing cost elements, we do not currently expect Thames Water to be at risk of breaching its financial ratio triggers under its financing documentation. This is because of certain elements of the regulatory determination that advance cash flows as well as financing decisions by the company in the run-up to the regulatory period.

Thames Water's financing structure includes cash-trapping triggers if (1) Class A RCV gearing exceeds 75% or senior RCV gearing exceeds 85%, (2) Class A adjusted interest cover ratio falls below 1.3x or senior adjusted interest cover ratio falls below 1.1x in a single year (or 1.4x and 1.2x, respectively, on a rolling three-year average basis), or (3) Class A or corporate ratings fall below Baa3/BBB- from any agency.

Gearing ratios will benefit from higher inflation, albeit somewhat moderated by Thames Water's high proportion of RPI-linked debt, as well as planned equity injections to support investments aimed at improving the operating company's performance ahead of the 2024 price review. The key pressure point will be the operating company's interest cover ratio.

However, in its final determination for AMP7, Ofwat noted financeability constraints for a number of companies and brought forward a total of £675 million of revenue from future periods by increasing the portion of expenditure received through revenues, the so-called pay-as-you-go or PAYG ratio, and, in some cases, also the RCV run-off rate (i.e. regulatory depreciation). For Thames Water, the additional revenue brought forward amounts to £125 million (in 2017/18 prices) over AMP7 and has the same cash impact as an increase in allowed returns of ca. 17 basis points. Unlike an actual increase in allowed returns, this revenue advance comes at the expense of lower RCV growth and future cash flow. We therefore do not give benefit to these advances in our AICR calculations. Nevertheless, such excess “fast money” allowances will increase cash flow for the purposes of Thames Water's interest cover covenants.

Cash flow at Thames Water also benefits from a small increase in RCV run-off rates during the period compared with AMP6, but this does not affect covenant headroom.

In addition, Thames Water has entered into financing transactions that reduce cash interest costs. These include £2.1 billion of RPI-linked swaps executed in late 2019 that allow Thames to defer a portion of interest payable from AMP7 into later periods, and borrowings from swap counterparties in AMP7 that will be treated as interest income for the purposes of the covenant calculation. The overall cash benefit, however, is smaller than for some peers that have undertaken similar swap reprofilings. In November 2022, the operating company also entered into a further £1.0 billion of 10-year RPI-linked swaps, which will reduce cash interest payments in the medium term. Certain RPI-linked swaps within the overall group have a requirement to pay accretion every five years or have only an overall five-year life. We include inflation accretion on these short-dated instruments as part of interest expense for the purpose of Moody's AICR calculation, which has resulted in very low Moody's-adjusted metrics in the current high inflation environment. However, financial covenants are calculated on a cash basis and the relatively high portion of inflation-linked debt (55-60% of Thames Water's total debt, including swaps) is supporting the Thames Water's covenanted interest coverage.

Taken together, we believe the above regulatory and company decisions reduce the risk of an AICR lock-up covenant breach, although some headroom has been eroded amid ongoing macroeconomic pressures (please refer to Exhibit 1).

... but tightening of regulatory ring-fence increases risk of lock-up under regulatory licence

On 20 March 2023, Ofwat published its decision to modify the ring-fencing licence conditions of the water and sewerage companies in England and Wales, concluding its consultation from July 2022. The most relevant change is the tightening of the rating trigger for a cash lock-up from 1 April 2025.

As part of their current regulatory ring-fence licence conditions, companies may not, without Ofwat’s consent, pay dividends (or make similar distributions, including through upstream loans) while their credit rating is Baa3 (or equivalent), with a negative outlook, or lower by any one credit ratings agency. The regulator has raised this threshold to Baa2, negative and requires all companies to have ratings from at least two rating agencies. The higher rating requirement will serve to trap cash at an earlier point as the credit quality of an operating water company deteriorates. The lock up will be subject to a three months grace period, during which companies may seek to persuade Ofwat that their financial resilience is not at risk. If a rating subsequently falls to Baa3 or lower, the lock up will apply automatically.

The definition of “issuer credit rating” that Ofwat considers relevant for the rating trigger includes Moody's corporate family rating, currently at Baa2 stable. Given the closeness of existing operating company ratings to the new lock-up trigger, the risk of a distribution block has increased. This is a material credit negative for Kemble, which is reliant on Thames Water's dividends to service its own debt obligations.

Kemble’s B1 rating already reflects the deep subordination and risk from contractual distribution blocks in the operating company’s financing structure. However, the current negative outlook also considers the increased risk of a lock-up being triggered. Current credit quality remains protected by existing liquidity at Kemble (see Liquidity section below) as well as a delay in the new licence trigger becoming effective. The latter will allow management and shareholders to take additional steps to bolster Thames Water's credit quality and/or improve Kemble's liquidity position ahead of 1 April 2025.

Successful implementation of the ongoing turn-around programme, aiming to improve Thames Water's operational performance, and a supportive price review in 2024, which will determine tariffs for the five-year period from 1 April 2025, will be paramount in supporting credit quality for both Thames Water and Kemble in the long-term.

Part of Kemble's more recent issuance was raised to support Thames Water's credit quality

In its original AMP7 business plan, Thames Water committed to reducing leverage at the operating company, through borrowing at Kemble to inject equity into Thames Water and limiting distributions.

As part of this strategy, Kemble raised £650 million in November 2018. £250 million was injected into Thames Water in April 2019, and the remainder used to refinance the existing debt at the holding company. Kemble provided a further £80 million to Thames Water during 2020/21. The amounts have been used to partially repay the intercompany loan from the operating company to its intermediate holding Thames Water Utilities Holdings Ltd.

With an excess cash position at Kemble following the 2018 refinancing, Thames Water also constrained the dividend payments to Kemble. During financial years 2020/21 and 2021/22, the operating company's distributions were curtailed to £33 million and £37 million, respectively.

The planned tightening of rating triggers under the licence will reduce the scope to use holding company debt to bolster the operating company's credit quality through debt-funded equity injections. Ofwat may take account of wider funding considerations, when considering the working of the licence trigger and companies could still be allowed to make certain distributions, if Ofwat permits these. However, this process has not been tested and we expect any potential permission to make distributions to take account of the licenced company's operational performance, including the success (or not) of any ongoing turnaround programme, and be allowed only in very exceptional circumstances, if at all.

Absent any distribution block, we expect Thames Water to broadly target distributions that match the interest and administrative costs at Kemble, with any additional cash maintained at the holding company level and the £150 million revolving credit facility providing backstop liquidity.

Liquidity analysis

Thames Water demonstrates a solid liquidity profile. Liquidity at Kemble is driven by the dividends upstreamed by Thames Water to the holding company, which we expect - together with any cash at the holding - to cover at least the interest payments at Kemble Finance and other administrative holding company costs over the next 12-18 months.

Kemble is obliged to make reasonable endeavours to maintain sufficient cash cover for 12 months interest payments, and the group has a track record of a prudent cash management policy by maintaining cash reserves and/or liquidity facilities. Liquidity is currently supported by a £150 million revolving credit facility at Kemble, which is sized to cover 18 months of interest payments and will mature in November 2027. In addition, the company held just over £100 million of cash at September 2022, which provides further buffer to potential distribution constraints from the operating company.

Kemble's issuance over the past three years illustrates the company's historically good access to funding, with the most recent tap issue in January 2021 and a refinancing of the liquidity facility in November 2022. The next major repayment relates to a £190 million loan due in April 2024.

Exhibit 4
Kemble's debt maturities are relatively well distributed
Maturities in £ millions presented on the basis of calendar years

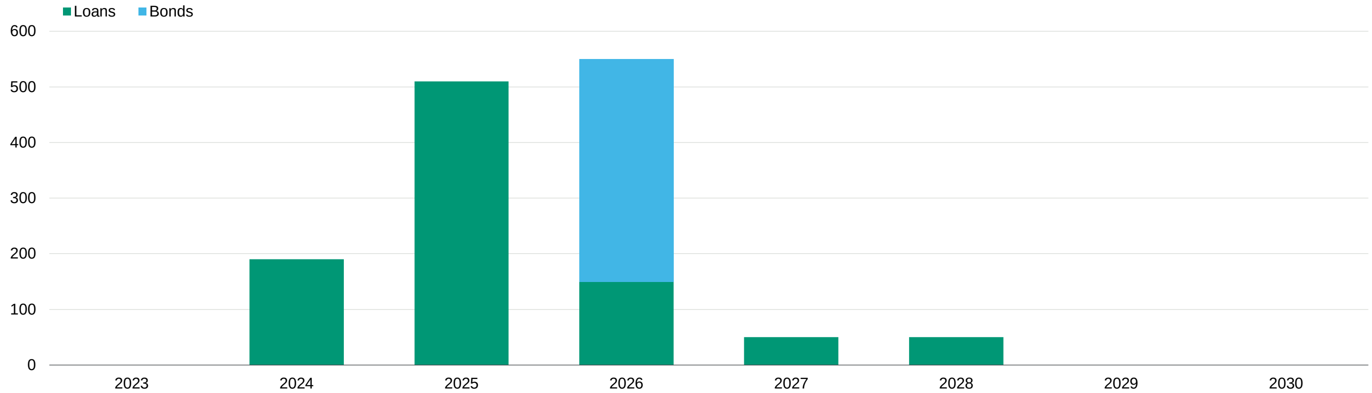


Chart reflects outstanding debt as at September 2022.
Source: Kemble investors reports, Moody's Investors Service

Structural considerations

Deep subordination of Kemble notes driven by regulatory and contractual terms that favour operating company creditors

In general terms, creditors of holding companies are structurally subordinated to creditors at the operating company level because they are further removed from the operational cash flow that is generated at the operating company level and which will first and foremost serve the operating company debt. Holding companies have to rely exclusively on the operating company's ability to pay dividend distributions from excess cash available after servicing debt at the operating company.

Such simple structural subordination can be amplified where the operating company's ability to pay distributions is further restricted.

In the case of Thames Water, the operating company has a highly covenanted financing structure, which restricts management's ability to alter the business and financial risk profile of the operating company to the detriment of its creditors.

As part of these restrictions, the operating company is subject to financial covenants, including cash lock-up triggers. While preventing distributions, such trigger events also allow creditors at the operating company level additional oversight by appointing an independent adviser to provide a remedial plan or discuss remedial measures with the regulator.

While Thames Water's covenant and security package provides additional protection for creditors at the operating company level, it is detrimental to the credit quality at the holding company. The holding company relies exclusively on distributions from the operating company to service its debt, and the distribution lock-up covenants at the operating company increase the risk of limited or no dividends being paid to the holding company.

When assessing the credit risk for the holding company creditors, we first evaluate the credit quality of the overall consolidated group. The approach is similar to assigning a corporate family rating at the highly leveraged operating company, with the exception that here we also take into account the holding company debt, assuming the entire group's debt is raised in one single class and at one single entity.

However, the consolidated credit quality of the holding company group does not take into account (1) the higher probability of default that creditors at the holding company level are facing; and (2) the higher severity of loss in an actual default scenario because of holding company creditors' structural and contractual subordination to operating company creditors.

To adequately reflect the deeply subordinated nature of the holding company debt obligations, we apply a wider notching than would normally be the case in a typical corporate OpCo-HoldCo structure, where the probability of default between the operating and holding companies is not materially different.

For further details on different OpCo-HoldCo structures and our notching approach in the context of a number of rated examples in the UK regulated utilities space, please refer to Moody's comment 'Regulated water utilities and energy networks – UK: Increasingly complex group structures create diverging opco and holdco credit risk', published in October 2018.

Terms and conditions of the Kemble notes ring-fence the company from additional shareholder claims

There is a distribution lock-up at Kemble if consolidated total net debt/RCV exceeds 92.5%. This mechanism potentially traps cash at the holding company, for the benefit of lenders, if the financial condition of the group is deteriorating. We note, however, that this arrangement may be of limited value as the occurrence of a dividend lock-up, or a trigger event, at Thames Water would result in no dividend payments being trapped at Kemble.

Actual leverage at the Kemble level has historically been below the distribution lock-up level at around 90% consolidated net debt/RCV, and our assessment of Kemble's credit quality reflects our expectation that consolidated net debt will remain around the 90%-mark of Thames Water's RCV, providing some headroom against financial covenants. Kemble is obliged to make reasonable endeavours to maintain sufficient cash cover for 12 months interest payments, and we understand that it is management's intention to maintain a facility sized to cover at least 18 months (equivalent to £150 million) of interest payments at Kemble to provide liquidity in the event that there are no dividend payments by Thames Water. Drawings under this facility will result in a dividend block at Kemble.

Following the redemption of the 2019 notes, Kemble's previous £900 million debt cap (net of cash held in accounts, but excluding debt subordinated to the Kemble notes) no longer applies.

Noteholders and bank lenders to Kemble also benefit from security granted by the issuer and guarantor, including over the shares held by Kemble in Thames Water Limited, an intermediate holding company that sits outside the ring-fenced financing group of the operating company. We note that lenders under the operating company's financing arrangements benefit from security over the shares in the operating company itself held by its immediate parent (an intermediate company within the operating company's ring-fenced financing group). If security granted under the Thames Water Programme were to be enforced, then the security at Kemble may have little or no value and, for this reason, the expected loss for lenders to Kemble is very high.

While we consider the above creditor protections of the Kemble Finance Programme as sufficient to effectively ring-fence the Kemble group, we do not believe they warrant any rating uplift.

ESG considerations

Thames Water (Kemble) Finance PLC's ESG Credit Impact Score is Very Highly Negative CIS-5

Exhibit 5
ESG Credit Impact Score

CIS-5

Very Highly Negative

For an issuer scored CIS-5 (Very Highly Negative), its ESG attributes are overall considered as having a very high negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-4.

Source: Moody's Investors Service

The ESG Credit Impact Score for Thames Water (Kemble) Finance plc (Kemble) is very highly negative (**CIS-5**), reflecting very high governance risks, high environmental and moderate social exposure. The overall credit impact score also considers that certain mitigating factors that apply to Kemble's core subsidiary Thames Water, in particular the regulated nature of water companies' activities and creditor protections embedded in the operating company licence and financing agreements, do not apply at the holding company level.

Exhibit 6

ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-4	S-3	G-5
Highly Negative	Moderately Negative	Very Highly Negative

Source: Moody's Investors Service

Environmental

Kemble's high environmental risk (**E-4** issuer profile score) primarily reflects the company's high risk exposure (via its core operating subsidiary, Thames Water) to water management and natural capital, which both take into account the effects of water pollution, and moderate exposure associated with physical climate risks, including climate change-related drought or flooding incidents.

Social

Similarly, social risk is moderately negative (**S-3**), reflecting the risk, common to all regulated utilities, that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention. Furthermore, public and political opposition to high dividend payments is directly targeting Kemble's only cash flow stream.

Governance

Governance risks are very high (**G-5**), reflecting the high financial leverage at the holding company level and the reliance on dividends being upstreamed from its operating subsidiary, with distributions subject to regulatory as well as contractual restrictions. This results in deep subordination of Kemble's creditors, reflected in a higher probability of default and potential loss given default. The elevated risk is recognised in relatively wide notching for debt issued by Kemble compared with the consolidated credit quality of the Kemble group.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Our assessment of Kemble reflects the application of our Regulated Water Utilities rating methodology, published in June 2018. The assigned B1 rating to the Kemble notes is notched down from Kemble's consolidated credit quality and reflects the deeply subordinated nature of creditor claims at the Kemble level, given the group's financial and contractual arrangements.

Exhibit 7

Rating methodology scorecard

Kemble Water Finance Limited

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2022		Moody's 12-18 Month Forward View As of March 2023 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aa	Aa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)	A	A	A	A
d) Revenue Risk	Aa	Aa	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk	A	A	A	A
Factor 2 : Financial Policy (10%)				
a) Financial Policy	B	B	B	B
Factor 3 : Leverage and Coverage (40%)				
a) Adjusted Interest Coverage Ratio (3 Year Avg)	1.2x	B	0.5x - 0.8x	Caa
b) Net Debt / Regulated Asset Base (3 Year Avg)	91.4%	B	88% - 91%	B
c) FFO / Net Debt (3 Year Avg)	5.5%	B	3% - 5%	B
d) RCF / Net Debt (3 Year Avg)	5.5%	Ba	3% - 5%	Ba
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		Ba2		Ba3
Notch Lift		0		0
a) Scorecard-Indicated Outcome		Ba2		Ba3
b) Actual Rating Assigned				B1

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) At 31/03/2022. (3) This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate any significant acquisitions or divestitures

Source: Moody's Financial Metrics™

Ratings

Exhibit 8

Category	Moody's Rating
THAMES WATER (KEMBLE) FINANCE PLC	
Outlook	Negative
Bkd Senior Secured -Dom Curr	B1

Source: Moody's Investors Service

Appendix

Exhibit 9

Selected peer comparison

Kemble Water Finance Limited

	Kemble Water Finance Limited Not Rated			Heathrow Finance plc Ba2 Negative		
(in GBP million)	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Dec-19	FYE Dec-20	FYE Dec-21
Revenue	2,115	2,047	2,092	3,070	1,175	1,214
EBITDA	1,126	1,001	736	1,923	234	421
Total Assets	20,583	20,710	21,185	17,561	19,355	18,187
Total Debt	14,437	14,717	15,806	16,343	19,544	18,606
Net Debt	13,321	13,914	15,109	15,498	19,239	18,374
FFO / Debt	5.9%	5.7%	4.1%	6.5%	-1.6%	-1.6%
FFO / Net Debt	6.4%	6.0%	4.3%	6.9%	-1.6%	-1.6%
Debt / Book Capitalization	100.2%	83.6%	89.8%	102.8%	110.0%	119.7%
Net Debt / EBITDA	11.8x	13.9x	20.5x	8.1x	82.2x	43.6x
Net Debt / Regulated Asset Base	91.3%	92.3%	90.7%	86.3%	86.5%	91.7%
Adjusted Interest Coverage Ratio	1.6x	1.4x	0.7x	1.3x	1.3x	-0.7x

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. Kemble does not have an assigned CFR, while Heathrow Finance does. In both cases the holding company debt is currently rated B1, reflecting subordination to an operating company senior secured and covenanted financing structure (the additional credit benefit for senior lenders at the operating company level differs slightly between the transactions).

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted debt breakdown

Kemble Water Finance Limited

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
As Reported Total Debt	17,753	19,374	20,792	21,398	22,404
Pensions	301	339	216	285	265
Leases	78	0	0	0	0
Hybrid Securities	(3,101)	(3,101)	(3,101)	(6,966)	(7,446)
Non-Standard Adjustments	(2,641)	(3,212)	(3,471)	0	584
Moody's Adjusted Total Debt	12,390	13,400	14,437	14,717	15,806
Cash & Cash Equivalents	(154)	(511)	(1,115)	(803)	(697)
Moody's Adjusted Net Debt	12,237	12,889	13,321	13,914	15,109

All figures are calculated using Moody's estimates and standard adjustments. Hybrid securities refers to shareholder loans, which are treated as quasi-equity in the context of the financial covenants of the Kemble notes. Non-standard adjustments largely reflect the removal of accrued interest payable and/or addition of cumulative accretion on inflation-linked swaps, where material.

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted funds from operations (FFO)

Kemble Water Finance Limited

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
As Reported Funds from Operations (FFO)	1,026	1,082	1,655	1,003	1,377
Pensions	19	1	21	96	4
Leases	6	0	0	0	0
Capitalized Interest	(101)	(109)	(98)	(70)	(115)
Hybrid Securities	510	561	613	633	697
Alignment FFO	(253)	(58)	(98)	(142)	(429)
Unusual Items - Cash Flow	(1)	(2)	(1)	0	0
Cash Flow Presentation	0	0	(763)	(210)	(446)
Non-Standard Adjustments	(553)	(801)	(481)	(475)	(437)
Moody's Adjusted Funds from Operations (FFO)	654	674	850	836	651

All figures are calculated using Moody's estimates and standard adjustments. Hybrid securities refers to shareholder loans, which are treated as quasi-equity in the context of the financial covenants of the Kemble notes. Non-standard adjustments reflect primarily the reclassification of interest paid and received into operating cash flow (prior to the introduction of the cash flow presentation standard adjustment in 2020), add back of inflation indexation, removal of cash flows linked to Bazalgette Tunnel Limited as well as corrections to the application of our standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 12

Select historical Moody's-adjusted financial data

Kemble Water Finance Limited

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
INCOME STATEMENT					
Revenue	2,019	2,037	2,115	2,047	2,092
EBITDA	1,043	1,070	1,126	1,001	736
EBITDA margin %	51.7%	52.5%	53.2%	48.9%	35.2%
EBIT	489	495	516	360	19
EBIT margin %	24.2%	24.3%	24.4%	17.6%	0.9%
Interest Expense	585	624	580	393	911
Net income	24	(6)	(53)	92	(911)
BALANCE SHEET					
Net Property Plant and Equipment	15,162	15,722	16,283	16,719	17,303
Total Assets	18,105	19,328	20,583	20,710	21,185
Total Debt	12,390	13,400	14,437	14,717	15,806
Cash & Cash Equivalents	154	511	1,115	803	697
Net Debt	12,237	12,889	13,321	13,914	15,109
Total Liabilities	18,612	20,311	21,719	18,852	20,486
Total Equity	(507)	(983)	(1,136)	1,858	699
CASH FLOW					
Funds from Operations (FFO)	654	674	850	836	651
Cash Flow From Operations (CFO)	698	683	741	700	806
Dividends					
Retained Cash Flow (RCF)	654	674	850	836	651
Capital Expenditures	(1,068)	(1,108)	(1,137)	(1,001)	(1,192)
Free Cash Flow (FCF)	(370)	(425)	(396)	(301)	(386)
INTEREST COVERAGE					
(FFO + Interest Expense) / Interest Expense	2.1x	2.1x	2.5x	3.1x	1.7x
Adjusted Interest Coverage Ratio	1.3x	1.3x	1.6x	1.4x	0.7x
LEVERAGE					
FFO / Net Debt	5.3%	5.2%	6.4%	6.0%	4.3%
RCF / Net Debt	5.3%	5.2%	6.4%	6.0%	4.3%
Regulated Asset Base (RAB)	13,886	14,429	14,594	15,070	16,664
Net Debt / Regulated Asset Base	88.1%	89.3%	91.3%	92.3%	90.7%

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

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