Thames Water Utilities Limited

Investor Report

30 September 2019

Important Notice

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

This report should be read in conjunction with, and as a supplement to, the Thames Water Utilities Limited financial statements for the period ended 30 September 2019. Please refer to the Thames Water website www.thameswater.co.uk for this document in full.

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1. Overview for the period ended 30 September 2019 (2019/20)

1.1. Key highlights

- 11% year-on-year reduction in average leakage, from 683Ml/d to 606 Ml/d – our biggest reduction in 20 years.
- Nearly £600 million invested in water and waste services assets to boost resilience.
- Three quarters of household customers moved to new relationship management and billing platform.
- More than doubled number of customers on Water Sure Plus social tariff to 114,000.
- Good progress in restructuring the business to drive cost and operational efficiency.
- Advanced stages of recruitment for new CEO.

Ian Marchant, Interim Executive Chairman, Thames Water Utilities Limited "TWUL", said:

"We're making good progress against our key priorities including leakage, which is down 11% year-on-year, after sharpening our focus in a number of areas. We're now fixing an average of more than 1,400 leaks every week, thanks to the hard work of our expanded teams and the use of big data and innovations. This is encouraging progress and we're committed to keeping up the positive momentum. We will continue to put our resources into maintaining this level of performance over the crucial winter period, when colder temperatures make reducing leakage even harder.

"As we near the end of a challenging price review process, our long-term investors continue to support the prioritisation of historically high investment levels over the taking of dividends. We remain resolutely focused on maximising the benefit of every pound to create value for our customers, communities and the natural environment, amid the challenges of climate change and population growth."

1.2. Financial overview

- Total revenue £1.1 billion (30 September 2018: £1.0 billion).
- £301.2 million underlying operating profit (30 September 2018 restated[1]: £224.0 million), increase partly attributed to increase in revenue and other operating income.
- £54.3 million underlying loss before tax (30 September 2018 restated[1]: Profit £42.4 million), driven by bi-annual revaluation of hedging instruments to current market prices.
- Zero dividends to external shareholders as part of commitment not to pay dividends to external shareholders for the three years to 2019/20.
- £28.0 million dividend to immediate parent company to service third party debt obligations.

1.3. Focused on improving customer service

- Increase in water quality with 99.98% compliance with Drinking Water Inspectorate measure.
- Successful transition of three quarters of household customer accounts to new relationship management and billing platform. On track to migrate most accounts by March 2020.
- Nearly 75,000 customers in vulnerable circumstances currently helped through priority services register, up 7% since the start of 2019/20.
- More than doubled number of customers on Water Sure Plus social tariff to 114,000; up to 50% discount off what is the third lowest combined bill in England and Wales.
- Education programme has reached 100,000 young people during this regulatory period so far, including nearly 13,000 during the first six months of this year.

[1] Restated following transition to IFRS 16 on 1 April 2019

1.4. Protecting and enhancing the environment

- Reduced internal sewer flooding incidents by 13% year-on-year.
- Total pollution incidents from January to September: 212 (January to September 2018: 217), with 8 category 2 (January to September 2018: 6). Continued focus to drive step change in reduction.
- 31 water fountains installed to date across London in partnership with the Mayor of London.
- Re-opened a London cycle route made from the equivalent of 1 million recycled plastic bags.
- Conducted 37,430 smarter home visits, saving 2.75 million litres of water every day. 270,000 visits since the programme launched in 2015, with over 22 million litres of water saved each day.
- Three per cent year-on-year reduction in greenhouse gas emissions.
- Generated a total of 162.42 GWh of renewable electricity, a 6.5% year-on-year increase, and the equivalent of £17.8 million in electricity costs, including 151.45 GWh of electricity from sludge.

1.5. Transformational investment programme

- Biggest leakage reduction in 20 years – 11% reduction from 683 Ml/d to 606Ml/d, after increasing resourcing and productivity; implementing better prevention and detection methods; and improved measurement techniques.
- Invested nearly £600 million in above and below ground assets, in projects such as upgrading water mains, metering, site security and connecting our network to the Thames Tideway Tunnel.
- Modernising an ageing network, with c.62% of our pipe network more than 60 years old – 81km of water mains rehabilitated during the six months.
- Deephams sewage treatment works upgrade wins prestigious 'Greatest Contribution to London' trophy at the ICE London Civil Engineering Awards in May 2019.
- Completed innovative sewer replacement at Baker Street, winning "Best Operations and Maintenance" at the British Construction Industry Awards.

1.6. Building a collaborative and capable team

- Four appointments to the Executive team: John Bentley, Capital Delivery Director; Nicola Cocks, Regulation Director; Lynne Graham, Human Resources Director and George Mayhew, Corporate Affairs Director.
- Ian Pearson, Independent Non-Executive Director, appointed Workforce engagement lead to strengthen the voice of the employee in the Boardroom.
- 22% reduction in injuries leading to absence from work.
- 239 people seeking advice and support through mental health first aider programme, leading to 93% of those employees remaining in work.
- Awarded Disability Confident Leader status in July 2019.

2. Regulatory and legal update[2]

2019 Price review

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

In July 2019, Ofwat published its draft determinations for slow track and significant scrutiny companies, which included further challenges for the sector including totex and more stretching performance commitments. Ofwat also updated their initial view of allowed cost of capital based on market factors, revising it downwards by 21bps at the appointee level.

In August 2019, TWUL responded to the draft determination, noting that the draft determination contained unreasonably stretching service targets and unreasonably demanding cost reduction targets. TWUL proposed an alternative business plan scenario, based upon its plan submitted in April 2019 but adapted to minimise expenditure and bills.

Final determinations for all companies are due to be published on 16 December 2019, after which companies will have a two-month period to decide whether to trigger a referral to the Competition and Markets Authority.

[2] Full regulatory and legal update available to secured creditors via the Security Trustee, Facility Agent and/or Thames Water as appropriate
[3] https://corporate.thameswater.co.uk/About-us/our-strategies-and-plans/our-5-year-plan-for-2020-to-2025

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
TWUL – Corporate Family Rating	Baa1 (negative)	N/A
TWUF – Class A Issuer Rating	A3 (negative)	BBB+ (negative)
TWUF – Class B Issuer Rating	Baa3 (negative)	BBB- (negative)

In August 2019, Moody's completed a periodic review of our ratings and affirmed our Corporate Family Rating ("CFR") at Baa1 with negative outlook (30 September 2018: Baa1, negative outlook). This is in line with our ratings of A3 and Baa3 for our Class A and Class B debt respectively, both with negative outlook.

In September 2019, Standard & Poors ("S&P") re-affirmed our credit rating of BBB+ and BBB- (30 September 2018: BBB+ & BBB-) in respect of our Class A debt and our Class B debt respectively with negative outlook (30 September 2018: negative outlook).

i) Recent financing activity

In April 2019, funding was completed for 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.

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.

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.

Note: In November 2018, Kemble Water Finance Limited (a holding company within the wider Kemble Water group) signed £190.0 million of term loans maturing in April 2024 and £459.8 million of note purchase agreements maturing between November 2025 and April 2026. In April 2019, £249.8 million of the proceeds were used to repay TWUL's debt.

ii) Bonds outstanding at 30 September 2019

Table 2 Class A and B bonds outstanding at 30 September 2019

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 30 Sep 2019 (£m)
TWUF	GBP	200	5.05%	30/06/2020	A	Fixed Rate Bond	200.0
TWUF	GBP	225	6.59%	20/04/2021	A	Fixed Rate Bond	225.0
TWUF	GBP	175	3.38%	21/07/2021	A	RPI Linked Bond	284.0
TWUF	EUR	113	2.30%	18/07/2022	A	CPI Linked Bond	108.8
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	153.5
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	50.2
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	44.6
TWUF	GBP	600	5.13%	28/09/2037	A	Fixed Rate Bond	600.0
TWUF	JPY	20,000	3.28%	20/08/2038	A	Fixed Rate Bond	150.4
TWUF	GBP	50	3.85%	15/12/2040	A	LPI Linked Bond	66.4
TWUF	GBP	500	5.50%	11/02/2041	A	Fixed Rate Bond	500.0
TWUF	GBP	50	1.98%	28/08/2042	A	RPI Linked Bond	69.9
TWUF	GBP	55	2.09%	06/10/2042	A	RPI Linked Bond	74.6
TWUF	GBP	40	1.97%	12/10/2045	A	RPI Linked Bond	46.9
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	139.7
TWUF	GBP	200	1.82%	28/08/2049	A	RPI Linked Bond	279.5
TWUF	GBP	300	1.68%	11/07/2053	A	RPI Linked Bond	438.5
TWUF	GBP	300	1.68%	11/07/2055	A	RPI Linked Bond	438.5
TWUF	GBP	200	1.77%	28/08/2057	A	RPI Linked Bond	279.5
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	489.1
Total							**8,319.1**

The face value of Index Linked Bonds as at 30 September 2019 included accretion of £809.1 million.

iii) Net debt reconciliation

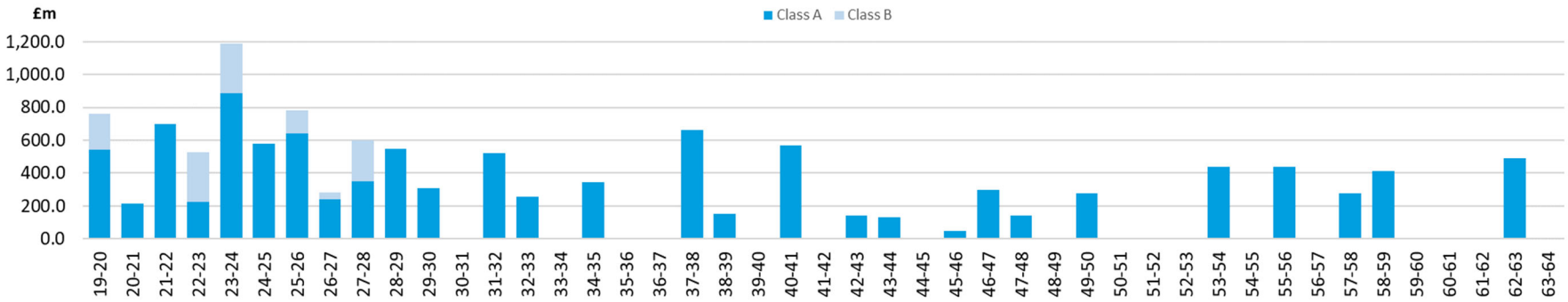
Table 3 Net debt reconciliation – 30 September 2019

	£m
Face Value Bonds including accretion Class A	7,469.1
Face Value Bonds including accretion Class B	850.0
Total Face Value Bonds including accretion	**8,319.1**
Class A USPP Notes	1,467.3
Class A RPI linked loans (including accretion of £245.2 million)	1,347.4
Accretion on Index Linked Swaps	342.7
Class A Floating Rate Loans	425.0
Class A Cross-currency swaps	(155.5)
Class B Loans	393.3
Less Cash and cash equivalents	(268.4)
IFRS 16 Lease liability	64.2
Net Debt as per Compliance Certificate	**11,935.1**
Unamortised debt issuance costs and discount	(74.7)
Amounts owed to group undertakings	5.5
Derivative financial liabilities	(187.2)
Interest payable on borrowings	128.3
IFRS 9 transition adjustment	25.5
IFRS 16 Lease liability	(64.2)
Net Debt as per accounts	**11,768.3**

iv) Maturity profile and headroom analysis

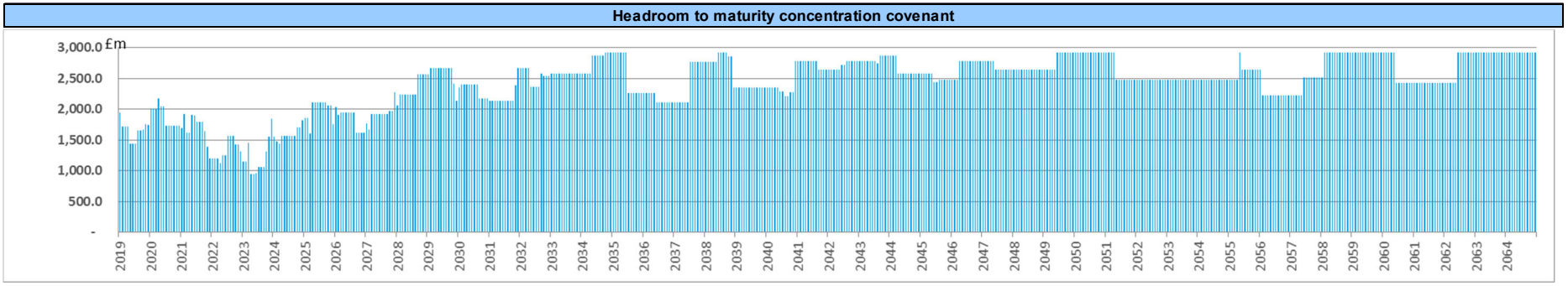
As at 30 September 2019

Graph 1 Debt maturity profile



Graph 2 Covenant headroom analysis

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



v) Derivative transactions

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

Table 4 Group & TWUL Derivative summary valuations

Derivative type	Group MtM as at 30 Sep 2019 (£m)	TWUL MtM as at 30 Sep 2019 (£m)
Cross currency swaps	100.2	(8.2)
Interest rate swaps	(195.1)	(195.1)
Index - linked swaps	(1,091.8)	(599.6)
Total	**(1,186.7)**	**(802.9)**

Foreign currency debt instruments are converted to Sterling liabilities with cross currency swaps as illustrated below. Swaps with breaks amount to 1.1% at 30 September 2019 (versus a limit 5% of RCV).

Table 5 Cross currency swaps

Issuer	Foreign Currency	Currency Amount (m)	£m	Maturity Date	MtM as at 30 Sep 2019 (£m)
TWUF	USD	150	96.6	28/02/2022	23.6
TWUF	EUR	113	100	18/07/2022	(0.1)
TWUL	USD	55	38.7	22/03/2023	6.9
TWUF	USD	200	128.8	27/02/2024	29.9
TWUF	CAD	250	143.6	12/12/2024	7.6
TWUL	USD	285	200.4	22/03/2025	37.3
TWUF	USD	106	82.0	13/04/2026	6.0
TWUF	USD	250	161.0	01/03/2027	34.1
TWUF	USD	131	101.3	13/04/2029	7.3
TWUF	EUR	50	44.1	13/04/2030	0.1
TWUL	JPY	20,000	153.6	20/08/2038	(52.5)
Total			**1,250.1**		**100.2**

In July 2019, noting the historic low interest rate environment, TWUL completed an amendment and extension transaction in respect of £2.1 billion pay fixed interest rate swaps (in addition to extending offsetting receive fixed swaps). Maturities were extended to 2030.

Table 6 Interest rate swaps

Issuer	Notional £m	Start Date	Maturity Date	MtM as at 30 Sep 2019 (£m)
Forward starting interest rate swaps (pay fixed)				
TWUL	150.0	16/03/2018	16/03/2025	(22.6)
TWUL	500.0	13/09/2016	14/03/2030	(39.5)
TWUL	300.0	14/07/2017	14/03/2030	(32.5)
TWUL	150.0	16/03/2018	14/03/2030	(25.6)
TWUL	300.0	14/03/2019	14/03/2030	(41.6)
TWUL	250.0	13/09/2019	14/03/2030	(38.3)
TWUL	400.0	16/03/2017	16/03/2030	(58.4)
TWUL	200.0	16/07/2017	16/03/2030	(18.5)
	2,250.0			**(277.0)**
Interest rate swaps (receive fixed)				
TWUL	500.0	24/01/2017	14/03/2030	17.3
TWUL	250.0	03/05/2017	14/03/2030	8.2
TWUL	200.0	17/07/2017	14/03/2030	5.6
TWUL	143.5	12/12/2017	14/03/2030	6.6
TWUL	350.0	22/03/2018	14/03/2030	17.9
TWUL	227.3	14/03/2019	14/03/2030	13.4
TWUL	100.0	17/07/2017	16/03/2030	3.4
TWUL	150.0	22/03/2018	16/03/2030	9.5
	1,920.8			**81.9**
Total	**4,170.8**			**(195.1)**

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 30 Sep 2019 (£m)
TWUL	200	210.9	At maturity	09/02/2032	-	(116.7)
TWUL	150	206.1	At maturity	28/09/2037	-	(125.3)
TWUL	250	206.1	28/09/2023	28/09/2037	12 years, maturity	(192.1)
TWUL	200	206.1	28/09/2022	28/09/2037	Every 5 years	(100.0)
TWUL	94.1	215.1	20/08/2023	20/08/2038	Every 5 years	(31.2)
TWUL	10	258.8	At maturity	31/03/2026	-	(2.8)
TWUL	10	258.8	At maturity	31/03/2026	-	(2.8)
TWUL	114.9	264.8	At maturity	09/04/2058	-	(28.7)
TWUF*	100	215.3	30/06/2020	31/12/2029	Every 5 years	(79.8)
TWUF	200	215.3	31/12/2019	31/12/2039	Every 5 years	(220.5)
TWUF	100	218	17/02/2020	17/02/2060	Every 5 years	(170.7)
TWUF*	100	235.2	At maturity	11/07/2022	-	(36.4)
	1,529.0					**(1,107.0)**

* In November 2019, TWUL completed a transaction to restructure a portion of its existing index linked swap portfolio, with the maturities of £200m notional of RPI linked swaps extended to 2039, increasing interest receivable from 2020 to 2025.

In October and November 2019, TWUL entered into £2.09 billion of new RPI linked swaps to convert the coupon on existing fixed nominal debt. The swaps were transacted with maturities of 5 years (£940 million notional) and 10 years (£1,150 million notional). None of these swaps contain breaks, and all are structured to repay all accretion at maturity.

These transactions are expected to reduce net cash interest paid by c.£30 million for the 12 months period ending 31 March 2020.

The following CPI linked swap was entered into on 11 July 2011 to convert the coupon on July 2022 EUR bond.

Issuer	Notional €m	Base CPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 31 Mar 2019 (£m)
TWUF	113.0	96.3	At maturity	18/07/2022	-	15.2
	113.0					**15.2**

None of the index linked swaps contain breaks. Accretion as a percentage of Class A net indebtedness is 3.22% (versus a limit of 8% of Class A net indebtedness).

vi) Available facilities

As at 30 September 2019, TWUL had committed facilities of £2,385.6 million (£2,171.3 million undrawn) in place. These facilities provide the necessary liquidity to fund the operations of the business for a minimum of twelve months. The committed facilities consisted of the following:

- £1,646.4 million revolving credit facility expiring November 2024, including Class A £1,432.1 million (undrawn as at 30 September 2019) and Class B £214.3 million (fully drawn as at 30 September 2019). As previously noted, in November 2019, the RCF's maturity date was extended by 1 year to 30 November 2024.
- £550.0 million 364-day undrawn liquidity facilities (split: £400.0 million debt service reserve and £150.0 million operations and capital maintenance reserve).
- £189.2 million term loan facility split across 8-year, 10-year and 12-year maturities. This facility was fully drawn in November 2019.

vii) Counterparty rating requirements

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

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

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

viii) Accretion charge

The income statement charge for the 6 months to 30 September 2019 relating to accreted interest expense and the total cumulative accretion held on the balance sheet on index-linked debt and derivative instruments is detailed below.

Table 8 Accretion charge

Instrument	6 Months to Sep 2019 (£m)	Accretion Paydowns 6 Months to Sep 2019 (£m)	Total Cumulative Accretion (£m)
Index-linked Bonds	31.1	-	809.1
Index-linked Loans	29.7	-	245.2
Index-linked Swaps	22.8	-	263.9
Index-linked Swaps with 5 year accretion paydowns	16.6	-	78.8
Total	**100.2**	-	**1,397.0**

ix) Cash and Authorised Investments

As at 30 September 2019, the following cash and cash equivalent investments were held.

Table 9 Cash and Authorised Investments

Counterparty type	TWUL (£m)	TWUF (£m)	Total (£m)
Cash and Cash Equivalents (Including AAA Money Market Funds)	265.8	2.6	268.4
Short Term Investments (Bank Deposits)	-	-	-
Total cash and investments	**265.8**	**2.6**	**268.4**

4. Dividends

No distributions to external shareholders (30 September 2018: £nil). During six month period ended 30 September 2019, dividends of £28.0 million (September 18: £nil) 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 30 September 2019 TWUL financial statements in order to arrive at the ratios below in accordance with the terms of the Common Terms Agreement.

Calculations for forward looking ratios for 31 March 2020, 31 March 2021 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 as at 30 September 2019

Senior net debt

30 September 2019 (£m)	
Senior net debt per accounts	**11,768.3**
Less Amounts owed to group undertakings	(5.5)
Less accrued interest	(128.3)
Add back unamortised debt issuance costs	74.7
Add derivative financial liabilities	187.2
Less IFRS 9 transition Adjustment	(25.5)
Add back IFRS 16 Lease Liability	64.2
Senior net debt per compliance certificate	**11,935.1**

Class A net debt

30 September 2019 (£m)	
Senior net debt per accounts	**11,768.3**
Less Class B debt	(1,243.3)
Less Amounts owed to group undertakings	(5.5)
Less accrued interest	(128.3)
Add back unamortised debt issuance costs	74.7
Add derivative financial liabilities	187.2
Less IFRS 9 transition Adjustment	(25.5)
Class A net debt per compliance certificate	**10,627.6**

Table 11 Conformed Net Cash Flow

	31 March 2020 (£m)
Cashflow from operations	**892.2**
Exceptional items	144.0
Reversal of capex creditor	-
Add back Impact of IP revenues and payments	-
Add Deferral of K	45.9
Conformed Net Cash Flow	**1,082.1**

TWUL receives interest on its £1,752.2 million[4] (September 2018: £1,974.7 million) intra-group loan to TWUHL. Within the calculation of net interest paid, TWUL excludes the interest it receives on this loan. For the purpose of this calculation the tax effect of eliminating the inter-company loan interest is also excluded from the Net Cash Flow. During the six months ended 30 September 2019 £27.3 million interest was received (30 September 2018: £nil).

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.

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

Table 12 Depreciation

Depreciation – as used in additional conformed interest cover ratios

	31 March 2020 (£m)
Water and wastewater depreciation (12/13 prices)	(492.0)
Factor to convert from 12/13 to outturn prices	1.1893
Depreciation (Outturn prices)	**(585.1)**

We confirm that in respect of the Calculation Date on 30 September 2019, by reference to the most recent financial statements in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement that the ratios are as detailed in the table below.

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

Table 13 The ratios – TWUL

Test date	30 September 2019	31 March 2020	31 March 2021
Class A RAR	72.7%	74.4%	72.8%
Conformed Senior RAR	81.7%	83.6%	82.5%

Test date	31 March 2020	31 March 2021
Conformed Class A ICR	3.26	4.82
Additional Conformed Class A Adjusted ICR	1.50	1.87
Additional Conformed Senior Adjusted ICR	1.34	1.50
Additional Conformed Class A Average Adjusted ICR	1.71	1.71
Additional Conformed Senior Average Adjusted ICR	1.47	1.47

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

IFRS 16 Consent Process

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

7. Group debt structure (as at 30 September 2019)

Thames Water - Group Debt Structure at 30 September 2019

All amounts in £ millions

Kemble Water Holdings

Kemble Water Eurobond

	Amount	Maturity
Shareholder Loan	310.4	March 2021

Kemble Water Finance

	Amount	Maturity
Term Loans KWF	75.0	July 2022
Term Loans KWF	200.0	July 2025
Term Loans KWF	4.5	November 2025
Term Loans KWF	5.5	November 2025
Term Loans KWF	100.0	November 2025
Term Loans KWF	200.0	December 2025
Term Loans KWF	149.8	April 2026
Term Loans KWF	190.0	April 2024

	Amount	% of RCV
KWF - Total Group Debt	**13,303.3**	
KWF - Total Cash	**283.7**	
KWF - Total Group Net Debt	**13,019.6**	89.1%

Thames Water (Kemble) Finance PLC

	Amount	Maturity
£175m 5.875% Bond	175.0	July 2022

Thames Water Ltd.

Thames Water Utilites Holdings Ltd

Thames Water Utilites Ltd

Thames Water Utilites Fiannce Plc

Securitisation Ring-fenced Group

	Amount	
Securitisation Group - Total Class A Debt	**10,896.0**	
Securitisation Group - Total Class B Debt	**1,243.3**	
Securitisation Group - Lease Liability	**64.2**	
Securitisation Group - Total Senior Debt	**12,203.5**	
Securitisation Group - Total Cash	**268.4**	
Securitisation Group - Total Class A Net Debt	**10,627.6**	72.7%
Securitisation Group - Total Senior Net Debt	**11,935.1**	81.7%
Accretion on Index-linked swaps (limit: 8% of Class A Net Debt)	342.7	3.2%
Swaps with breaks (limit: 5% of RCV)	153.6	1.1%
Index-linked Debt (post swaps) in Securitisation Group (% of Total Senior Debt)	5,929.1	48.6%
Stated RCV as at 30 September 2019	14,608.9	

Class A	Amount	Maturity
Thames Water Utilities Finance Plc		
£200m 5.050% Bond, Ser. 40	200.0	June 2020
£225m 6.590% Bond, Ser. 41	225.0	April 2021
£175m 3.375% RPI Bond, Ser. 37	284.0	July 2021
USPP $150m Note	122.0	February 2022
Series 13 €113m 2.30% CPI Bond	108.8	July 2022
Series 21 £250m 1.875% Bond	250.0	January 2024
USPP $200m Note	162.6	February 2024
CAD 250m 2.875% Bond	153.5	December 2024
Series 16 £500m 4% Bond	500.0	June 2025
USPP $106m Note	86.2	April 2026
USPP $250m Note	203.3	March 2027
Series 18 £45m 0.721% RPI Bond	50.2	December 2027
Series 19 £300m 3.5% Bond	300.0	February 2028
£330m 6.750% Bond, Ser. 11	330.0	November 2028
USPP $131m Note	106.5	April 2029
USPP €50m Note	44.3	April 2030
Series 22 £250m 2.625% Bond	250.0	January 2032
£200m 6.500% Bond, Ser. 22	200.0	February 2032
Series 14 £300m 4.375% Bond	300.0	July 2034
Series 17 £40m 0.75% RPI Bond	44.6	December 2034
£600m 5.125% Bond, Ser. 44	600.0	September 2037
Series 3 JPY20bn 3.28% Bond	150.4	August 2038
Series 4 £50m 3.853% LPI Bond	66.4	December 2040
Series 12 £500m 5.50%Bond	500.0	February 2041
Series 1 A5 £50m 1.980% RPI Bond	69.9	August 2042
Series 6 £55m 2.091% RPI Bond	74.6	October 2042
Series 10 £40m 1.974% RPI Bond	46.9	October 2045
Series 15 £300m 4.625% Bond	300.0	June 2046
Series 1 A4 £100m 1.846% RPI Bond	139.7	August 2047
Series 1 A3 £200m 1.819% RPI Bond	279.5	August 2049
£300m 1.6802% RPI Bond, Ser. 43	438.5	July 2053
£300m 1.681% RPI Bond, Ser. 42	438.5	July 2055
Series 1 A2 £200m 1.771% RPI Bond	279.5	August 2057
Series 20 £400m 7.738% Bond	400.0	April 2058
Series 1 A1 £350m 1.760% RPI Bond	489.1	August 2062
Accretion on RPI swaps	73.2	2022-2060
Cross currency swaps	(121.3)	2022-2030

Class A (continued)	Amount	Maturity
Thames Water Utilities Limited		
£60m RPI Term Loan	80.5	December 2019
£60m RPI Term Loan	80.3	January 2020
£60m RPI Term Loan	79.9	February 2020
£60m RPI Term Loan	79.7	March 2020
£100m Floating rate Term Loan	100.0	March 2020
£60m RPI Term Loan	79.7	March 2020
£75m RPI Term Loan	91.2	December 2021
£50m Floting rate Term Loan	50.0	June 2022
USPP $55m Note	44.7	March 2023
£215m RPI Term Loan	254.0	December 2023
£150m Floating rate Term Loan	150.0	February 2024
£125m Floting rate Term Loan	125.0	June 2024
£100m RPI Term Loan	112.4	February 2025
USPP $285m Note	231.7	March 2025
£125m RPI Term Loan	139.8	March 2026
USPP £216m Note	216.0	April 2028
USPP £210m Note	210.0	March 2030
£215m RPI Term Loan	216.7	November 2032
USPP £40m Note	40.0	March 2033
£100m RPI Term Loan	133.2	November 2043
Accretion on RPI swaps	269.5	2026-2058
Cross currency swaps	(34.2)	2023-2038
Total Class A	**10,896.0**	

Class B	Amount	Maturity
Thames Water Utilities Finance Plc		
Series 22 £300m 2.375% Bond	300.0	May 2023
Series 23 £250m 2.875% Bond	250.0	May 2027
Series 9 £300m 5.75% bond	300.0	September 2030
Revolving Credit Facility drawdown	214.3	October 2019
Thames Water Utilities Limited		
£50m 3.867% Term Loan	50.0	March 2026
£70m 3.867% Term Loan	70.0	March 2026
£20m Floating rate Term Loan	20.0	March 2026
£39m 3.918% Term Loan	39.0	March 2026
Total Class B	**1,243.3**	
Total Senior Debt	**12,139.3**	

The Group has access to a total of £2.4 billion facilities. As at 30 September 2019, this included a £1.6 billion Revolving Facility (expiring in 2024, £1.4 billion undrawn as at 30 September 2019), a £550 million 364 day undrawn facility that is renewed annually in August, a £110 million undrawn facility expiring in 2023 and £189.2 million term loan facility which was fully drawn in November 2019.

Yours faithfully,

BRANDON RENNET

Chief Financial Officer and Director

For and on behalf of

THAMES WATER UTILITIES LIMITED

TOM BOLTON

Director

For and on behalf of

THAMES WATER UTILITIES FINANCE PLC

Appendix 1 Financial Ratio Calculations

Calculations for forward looking ratios for March 2020, March 2021 and an information sheet on additional conformed interest cover ratio calculation have been provided to Security Trustee and the Facility Agent as required by the CTA. This information is not however included in the published Investor Report. Secured creditors may register their interest in receiving a full version of the investor report by contacting the Security Trustee, the Facility Agent and Thames Water as appropriate.

Appendix 2 PMICR covenant information sheet

Calculations for forward looking ratios for March 2020, March 2021 and an information sheet on additional conformed interest cover ratio calculation have been provided to Security Trustee and the Facility Agent as required by the CTA. This information is not however included in the published Investor Report. Secured creditors may register their interest in receiving a full version of the investor report by contacting the Security Trustee, the Facility Agent and Thames Water as appropriate.

Appendix 3 Thames Tideway Tunnel

During the six months to 30 September 2019, TWUL continued to bill revenue for the construction of the Thames Tideway Tunnel (TTT). £31.2 million was recognised in the period, which is, when collected, passed on to Bazalgette Tunnel Limited (BTL).

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

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

BTL and their contractors have made good progress over the last 6 months. They have mobilised on 20 of their 21 sites. Four of the six tunnel boring machines (TBMs) are in the ground and tunnelling, with a further two due to start next year. They have successfully completed all eight of their cofferdams, nine of their shafts are excavated with a further eight in progress and four yet to commence. The TBMs made good progress on their journeys with 7.4km of the 25km of main tunnel complete.

Thames Tideway Tunnel Price Controls

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

Contact details

For more details please contact us at:

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