



Thames Water Utilities Limited

Investor Report

31 March 2018

Important Notice

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

This report should be read in conjunction with, and as a supplement to, the Thames Water Utilities Limited financial statements for the period ended 31 March 2018. Please refer to the Thames Water website www.thameswater.co.uk for this document in full.

Contents

1. Highlights for the period ended 31 March 2018

- 1.1 Financial performance
- 1.2 Customer Service
- 1.3 Operational performance
- 1.4 Leakage
- 1.5 Governance
- 1.6 Shareholder change
- 1.7 Regulatory developments

2. Financing

3. Dividend

4. Outsourcing

5. Financial Ratios

Appendix 1 Financial ratio calculations

Appendix 2 Group debt structure

Appendix 3 PMICR Covenant Information Sheet

Appendix 4 Thames Tideway Tunnel

1. Highlights for the period ended 31 March 2018

1.1 Financial performance

- £517.0 million underlying operating profit (March 17: £605.4 million)
- £34.6 million underlying profit before tax excluding profit on the sale of our non-household business (March 17: £38.1 million)
- Capital investment of £1,148.8 million in our network and other assets (March 17: £1,218.0 million), with around £13 billion invested over the last 13 years
- No distributions to external shareholders (March 17: £100.0 million). £55.0 million paid to service group interest obligations and working capital requirements (March 17: £57.0 million)
- No external shareholder distributions will be paid for the remainder of this regulatory period, with this money reinvested into the business

1.2 Customer service

- Helped 7,500 households with their water debt through our Customer Assistance Fund, a 20% year-on-year increase
- At £383 a year, household customers continue to benefit in 2018-19 from the second lowest average combined water and wastewater bill in England and Wales
- 4% year-on-year reduction in household written complaints and a 19% year-on-year reduction in the volume of second stage complaints
- Our Ofwat Service Incentive Mechanism (SIM) customer score increased to 78.4 points out of 100 (March 17: 77.3)
- Introducing leading-edge billing and customer platform to improve customer experience and system resilience, piloting later this year

1.3 Operational performance

- Scored 99.96% Drinking Water Inspectorate drinking water quality compliance (Mar '17: 99.96%). Our water quality remaining among the best in the world
- Sewage treatment works discharge compliance of 99.43% - our best performance since 2013
- Committed to learn lessons from customer supply interruptions caused by the 'Beast from the East' in March 2018 and will publish a plan of action in late September 2018
- ODI net penalty, excluding leakage, of £20.83 million, to be returned to customers through lower bills
- We are continuing to improve our pollutions performance, with 292 incidents in 2017 (a calendar year measure) against a target of 340, representing a 7% year-on-year reduction (2016: 315)

1.4 Leakage

- Our leakage performance for 2017/18 was 695 MI/d (mega litres per day), compared with 677 MI/d in 2016/17, as we played catch up with the previous year's low levels of find and fix activity
- Following continued mobilisation of our leakage recovery plan, we are now completing an average of 1,000 leakage repairs every week – our best performance since 2011

- We expect our leakage performance to improve in 2018/19 and we remain on track to meet our original 2019/20 target of 606 MI/d

1.5 Governance

- The composition of the board has evolved significantly over the last year. Ian Marchant was appointed as an Independent Non-Executive Director on 1 December 2017, and became our Chairman on 26 January 2018 following Sir Peter Mason's retirement. One of Ian's first tasks was to undertake a thorough review of our governance to ensure 'best in class' standards
- We have appointed a leading search firm to help us find new Independent Non-Executive Directors (INEDs) to refresh our Board and to ensure that we will have a majority of INEDs when the review is complete. This has led to the appointment of Alistair Buchanan, formerly CEO of Ofgem for ten years, as a new INED in July 2018
- In November 2017, as part of our commitment to greater transparency, we announced our intention to close our Cayman Island-domiciled subsidiaries including Thames Water Utilities Cayman Finance Limited (TWUCF). To implement this, a creditor consent solicitation process was conducted. On 26 June 2018 this was completed, providing the necessary creditor approvals. Following this, we expect to liquidate the Cayman entities before the end of 2018/19. In the future, new bonds will be issued by Thames Water Utilities Finance Limited (TWUF)
- Our CEO, Steve Robertson, has agreed not to take any bonus payments until 2020, as a personal commitment to improving the performance of the business. He will only receive additional payments following the end of the regulatory period, if we meet our critical customer commitments
- We have also made changes to our incentives plan for all employees, ensuring a closer link to operational performance to drive better behaviours
- KPMG LLP, who have been the Group's external auditors for the last ten years, will be replaced in this role by PricewaterhouseCoopers LLP following a tender. PricewaterhouseCoopers LLP are a firm of independent public accountants of international standing and the consent of the Security Trustee to their appointment is not therefore required

1.6 Shareholder change

- In May 2017, OMERS (Ontario Municipal Employees Retirement System, one of Canada's largest pension funds) and Wren House (the global direct infrastructure investment arm of the Kuwait Investment Authority) acquired 17.54% and 8.78% of our ultimate holding company respectively
- Between May 2017 and March 2018, OMERS twice increased its shareholding, bringing their total share to 27.43%. In July 2018 they further increased their shareholding to 31.78%
- Universities Superannuation Scheme (USS), one of the largest principal pension schemes for universities and other higher education institutions in the UK, acquired a 10.94% share in November 2017, becoming the second largest shareholder of our ultimate holding company

1.7 Regulatory developments

Leakage settlement

- After beating our leakage target for ten years in a row, we have missed it for the last 2 years
- Following an Ofwat investigation into our leakage performance all our customers will now benefit from reductions on their bills until 2025. We will return £120 million to our customers, consisting of £55 million of historic and forecast automatic penalties and £65 million we have put forward to compensate for our performance
- We have a structured recovery plan in place to bring leakage performance back to our 2019/20 target of 606MI/d

Freeze-thaw

- In March 2018 the UK was hit with a prolonged period of sub-zero temperatures, followed by an extremely rapid thaw resulting in operational challenges for us and other water companies in England and Wales. Although we had made plans for the adverse weather, some customers were affected by supply interruptions
- We have compensated customers at a level higher than the statutory rate. We have completed a thorough root cause analysis and will use the insight the analysis has provided to implement further improvements to our incident management. Ofwat's report 'Out in the Cold' on water companies' responses to the freeze-thaw confirms that we are focusing on the right areas

Putting the sector back in balance

- On 3 July Ofwat published a final position statement following its 'Putting the sector back in balance' consultation. This comprised a series of targeted amendments and clarifications to the PR19 methodology, including in relation to: proposals for companies to share financing outperformance from gearing; expectations for transparency of dividend and performance-related executive pay policies in PR19 business plans; and clarifications on how companies are expected to demonstrate financial resilience in business plans. On 31 July 2018, Ofwat set out its final position on the consultation, a summary of the issues raised by respondents, rationale for its decisions and an assessment of the impact

Price Review 2019

- Ahead of the next regulatory period from 2020 to 2025, we are in the process of finalising our PR19 business plan with submission to Ofwat due in September 2018. In preparation for our submission we have engaged with thousands of customers to better understand their priorities and views
- Ofwat will publish its initial assessment of business plans in January 2019

2. Financing

- In recent years, Thames Water Utilities Limited (TWUL) has raised debt either directly or through its wholly owned financing subsidiary TWUCF. TWUL also has bonds outstanding via its wholly owned subsidiary TWUF
- We continue to finance our business in public and private debt capital markets, accessing a diverse range of currencies, geographies and investors. The last year has seen us focus on broadening our funding base, including with the issue of a CAD 250 million (£143.6 million) inaugural Maple bond in December 2017 and a £705.1 million US Private Placement (USPP) in March 2018, our debut issuance under the green bond framework

Table 1 Current credit ratings

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

On 25 July 2018 Standard & Poor's (S&P) affirmed its BBB+ rating on Class A debt and BBB- rating on our Class B debt but revised the outlook on both to negative from stable.

On 29 May 2018 Moody's affirmed its Baa1 Corporate Family Rating (CFR) and its A3 rating on our Class A debt and Baa3 rating on our Class B debt but revised the outlook on both to negative from stable.

i) Recent financing activity

During the year ended 31 March 2018 the following long-term financing was undertaken:

- May 2017 – TWUCF, £300m Class B fixed rate bond due May 2023
- May 2017 – TWUCF, £250m Class B fixed rate bond due May 2027
- December 2017 – TWUCF, CAD 250m Class A (£144.5m) fixed rate bond due December 2024
- March 2018 – TWUL, \$55m (£38.7m) Class A fixed rate US Private Placement (USPP) due March 2023
- March 2018 – TWUL, \$285m (£200.4m) Class A fixed rate USPP due March 2025
- March 2018 – TWUL, £216m Class A fixed rate USPP due April 2028
- March 2018 – TWUL, £210m Class A fixed rate USPP due March 2030
- March 2018 – TWUL, £40m Class A fixed rate USPP due March 2033

ii) Bonds outstanding at 31 March 2018

Table 2 Class A and B bonds outstanding at 31 March 2018

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 31 Mar 18 (£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	273.8
TWUCF	EUR	113	2.30%	18/07/2022	A	CPI Linked Bond	104.6
TWUCF	GBP	300	2.38%	03/05/2023	B	Fixed Rate Bond	300.0
TWUCF	GBP	250	1.88%	24/01/2024	A	Fixed Rate Bond	250.0
TWUCF	CAD	250	2.88%	12/12/2024	A	Fixed Rate Bond	138.2
TWUCF	GBP	500	4.00%	19/06/2025	A	Fixed Rate Bond	500.0
TWUCF	GBP	250	2.88%	03/05/2027	B	Fixed Rate Bond	250.0
TWUCF	GBP	45	0.72%	21/12/2027	A	RPI Linked Bond	47.9
TWUCF	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
TWUCF	GBP	300	5.75%	13/09/2030	B	Fixed Rate Bond	300.0
TWUCF	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
TWUCF	GBP	300	4.38%	03/07/2034	A	Fixed Rate Bond	300.0
TWUCF	GBP	40	0.75%	18/12/2034	A	RPI Linked Bond	42.5
TWUF	GBP	600	5.13%	28/09/2037	A	Fixed Rate Bond	600.0
TWUCF	JPY	20,000	3.28%	20/08/2038	A	Fixed Rate Bond	134.2
TWUCF	GBP	50	3.85%	15/12/2040	A	LPI Linked Bond	63.3
TWUCF	GBP	500	5.50%	11/02/2041	A	Fixed Rate Bond	500.0
TWUCF	GBP	50	1.98%	28/08/2042	A	RPI Linked Bond	67.1
TWUCF	GBP	55	2.09%	06/10/2042	A	RPI Linked Bond	71.1
TWUCF	GBP	40	1.97%	12/10/2045	A	RPI Linked Bond	46.4
TWUCF	GBP	300	4.63%	04/06/2046	A	Fixed Rate Bond	300.0
TWUCF	GBP	100	1.85%	28/08/2047	A	RPI Linked Bond	134.2
TWUCF	GBP	200	1.82%	28/08/2049	A	RPI Linked Bond	268.4
TWUF	GBP	300	1.68%	11/07/2053	A	RPI Linked Bond	422.9
TWUF	GBP	300	1.68%	11/07/2055	A	RPI Linked Bond	422.9
TWUCF	GBP	200	1.77%	28/08/2057	A	RPI Linked Bond	268.4
TWUCF	GBP	400	7.74%	09/04/2058	A	Fixed Rate Bond	400.0
TWUCF	GBP	350	1.76%	28/08/2062	A	RPI Linked Bond	469.7
Total							8,180.6

iii) TWUL net debt reconciliation

The face value of Index Linked Bonds as at 31 March 2018 includes accretion of £699.1m.

Table 3 TWUL net debt reconciliation

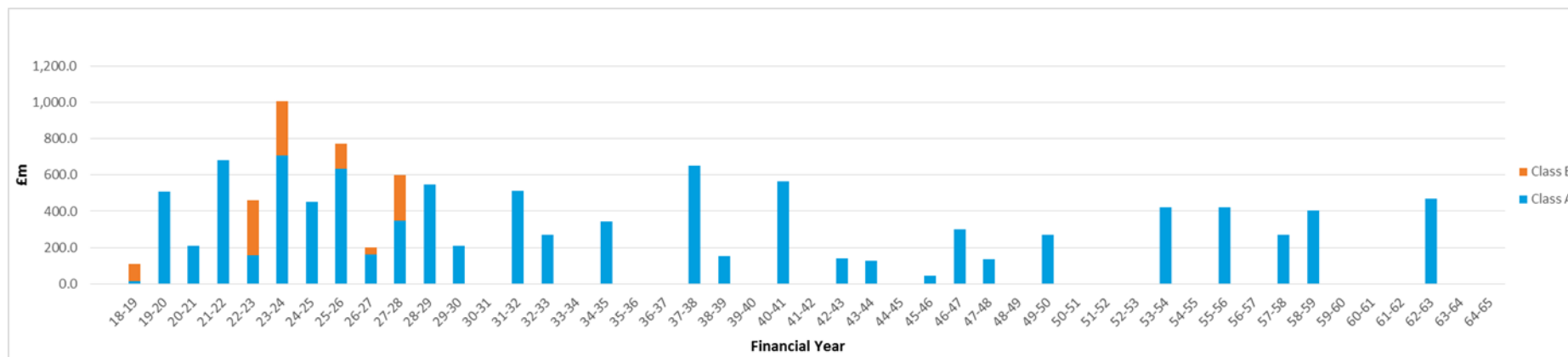
	£m
Face Value Bonds including accretion Class A	7,330.6
Face Value Bonds including accretion Class B	850.0
Total Face Value Bonds including accretion	8,180.6
Class A USPP Notes	1,136.2
Class B USPP Notes	107.0
Class A RPI linked loans including accretion of £176.8m	1,306.8
Accretion on RPI Linked Swaps	267.3
Class A Floating Rate Loans	100.0
Class A Cross-currency swaps	(19.1)
Class B Cross-currency swaps	(10.4)
Class B Loans	179.0
Less TWUL Cash Investments	(107.0)
TWUL Net Debt as per Compliance Certificate	11,140.4
Fees and Discounts	(78.0)
Intercompany Loans*	300.0
Derivative financial liabilities	(234.9)
Interest payable on amounts owed to group undertakings	203.9
Interest payable on secured bank loans	4.8
TWUL Net Debt as per accounts at 31 March 2018	11,336.2

* This relates to intercompany loans from financing subsidiaries for which there is no related external debt.

iv) Maturity profile and headroom analysis

Graph 1 Debt maturity profile

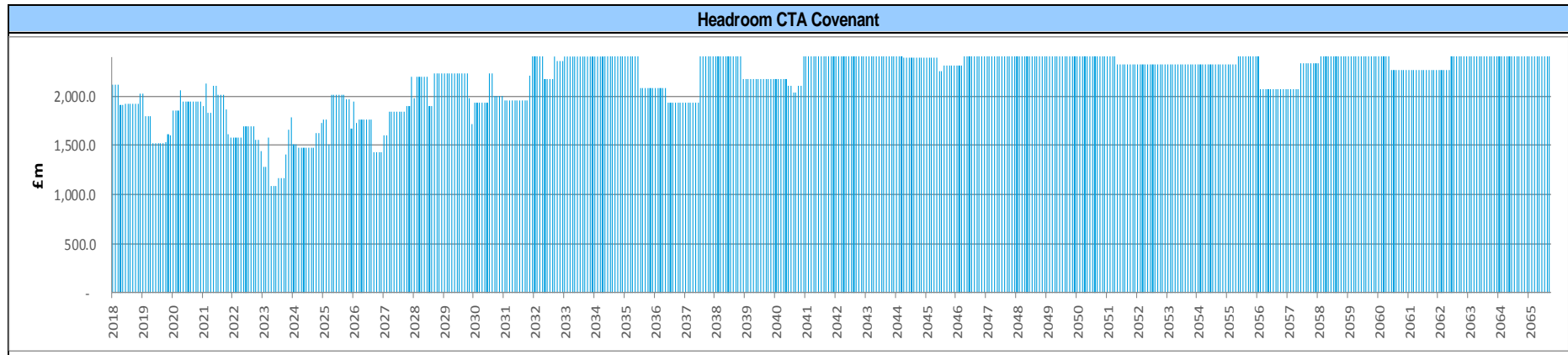
As at 31 March 2018



Growth in RCV ensures significant headroom available across all maturities.

There is a covenant in place which dictates that additional debt issuance shall not cause maturities to exceed 20% of RCV in any 24 month period or 40% of RCV within any AMP.

Graph 2 Covenant headroom analysis



v) Derivative transactions

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

Table 4 Group & TWUL Derivative summary valuations

Derivative type	Group MtM as at 31 Mar 2018 (£m)	TWUL MtM as at 31 Mar 2018 (£m)
Cross currency swaps	(56.4)	(58.8)
Interest rate swaps	(221.5)	(221.5)
Index - linked swaps	(875.4)	(481.8)
Total	(1,153.3)	(762.1)

Foreign currency debt instruments are converted to Sterling liabilities with cross currency swaps as illustrated below. Swaps with breaks amount to 1.12% at 31 March 2018 (versus a limit 5% of RCV).

Table 5 Cross currency swaps

Issuer	Foreign Currency	Currency Amount (m)	£m	Maturity Date	Notes	MtM as at 31 Mar 2018 (£m)
TWUCF	USD	150	96.6	27/02/2019	Class B	8.5
TWUCF	USD	150	96.6	28/02/2022		4.1
TWUCF	EUR	113	100	18/07/2022		(1.0)
TWUL	USD	55	38.7	22/03/2023		0.4
TWUCF	USD	200	128.8	27/02/2024		2.1
TWUCF	CAD	250	143.6	12/12/2024		(7.9)
TWUL	USD	285	200.4	22/03/2025		1.5
TWUCF	USD	250	161.0	01/03/2027		(3.4)
TWUL	JPY	20,000	153.6	20/08/2038		(60.7)
Total			1,119.3			(56.4)

In mid-2014 TWUL entered into £2.25bn of forward starting fixed rate interest rate swaps (FSSs) to fix interest costs for debt expected raised during AMP6. Due to a slight increase in short term interest rates and pull to par effect (as maturities are shortened) the mark to market liability related to the FSSs has decreased to £199.2m (31 March 2017: £262.6m).

Table 6 Interest rate swaps

Issuer	Notional £m	Start Date	Maturity Date	MtM as at 31 Mar 2018 (£m)
Forward starting interest rate swaps (pay fixed)				
TWUL	500*	13/09/2016	13/09/2021	(27.8)
TWUL	500*	16/07/2017	18/07/2022	(42.3)
TWUL	300	14/03/2019	14/03/2024	(24.6)
TWUL	400*	16/03/2017	16/03/2024	(44.0)
TWUL	250	14/09/2019	14/09/2024	(20.7)
TWUL	300*	16/03/2018	16/03/2025	(39.8)
	2,250.0			(199.2)
Interest rate swaps (receive fixed)				
TWUL	500	24/01/2017	13/09/2021	(6.9)
TWUL	300	17/07/2017	16/07/2022	(6.1)
TWUL	200	22/03/2018	16/07/2022	(0.8)
TWUL	250	03/05/2017	16/03/2024	(6.6)
TWUL	143.5	12/12/2017	18/03/2024	(1.3)
TWUL	300	22/03/2018	17/03/2025	(0.6)
	1,693.5			(22.3)
Total	3,943.5			(221.5)

*These FSSs have already commenced.

Table 7 Inflation 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 2018 (£m)
TWUL	200	210.9	At maturity	09/02/2032	-	(83.2)
TWUL	150	206.1	At maturity	28/09/2037	-	(90.4)
TWUL	250	206.1	28/09/2023	28/09/2037	12 years, maturity	(139.7)
TWUL	200	206.1	28/09/2022	28/09/2037	Every 5 years	(90.5)
TWUL	94.1	215.1	20/08/2018	20/08/2038	Every 5 years	(33.8)
TWUL	10	258.8	At maturity	31/03/2026	-	(1.1)
TWUL	10	258.8	At maturity	31/03/2026	-	(1.1)
TWUL	114.9	264.8	09/04/2046	09/04/2058	-	(42.0)
TWUF	100	215.3	30/06/2020	31/12/2029	Every 5 years	(60.2)
TWUF	200	215.3	31/12/2019	31/12/2039	Every 5 years	(171.4)
TWUCF	100	218	17/02/2020	17/02/2060	Every 5 years	(145.3)
TWUCF	100	235.2	At maturity	11/07/2022	-	(31.0)
	1,529.0					(889.7)

The following CPI linked swap have been entered into to convert the coupon on bond.

Issuer	Notional €m	Base CPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 31 Mar 2018 (£m)
TWUCF	113.0	96.3	At maturity	18/07/2022	-	14.3
	113.0					14.3

None of these swaps contain breaks. Accretion as a percentage of Class A net indebtedness is 2.67% (versus a limit of 8% of Class A net indebtedness).

vi) Available facilities

As at 31 March 2018, TWUL had committed facilities of £1,450m (fully undrawn) in place. These facilities provide the necessary liquidity to fund the operations of the business for a minimum of twelve months if required. The undrawn committed facilities consist of the following:

- £950m revolving credit facility (“RCF”) expiring November 2022. In November 2017 the extension of the maturity of the RCF was completed from November 2021 to November 2022. Pricing remained unchanged.
- £500m 364-day liquidity facilities (split: £370m debt service reserve and £130m operations and capital maintenance reserve).

In August 2018 the liquidity facilities will be increased in size to £550m (£400m debt service reserve and £150m operations and capital maintenance reserve).

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 A3. Hedge Counterparties losing the minimum rating requirement must post collateral to TWUL or replace themselves as counterparty.

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

viii) Accretion charge

The income statement charge for the 12 months to 31 March 2018 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 March 2018 (£m)	Accretion Paydowns 12 Months to March 2018 (£m)	Total Cumulative Accretion (£m)
Index-linked Bonds	98.6		699.1
Index-linked Loans	49.9		176.8
Index-linked Swaps	38.8		215.4
Index-linked Swaps with 5 year accretion paydowns	35.2	29.9	51.9
Total	222.4	29.9	1,143.2

ix) Cash and Authorised Investments

As at 31 March 2018, TWUL held the following cash and cash equivalent investments. All bank deposits are held with counterparties that hold a short-term rating of A1/P-1 or higher.

Table 9 Cash and Authorised Investments

Counterparty type	Amount (£m)
Cash and Cash Equivalents (AAA Money Market Funds)	107.0
Short Term Investments (Bank Deposits)	-
Total TWUL cash and investments	107.0

3. Dividends

During the period the Company paid dividends of £55.0 million (2016/17: £157.0 million). All dividends paid in respect of the current year were made to other companies within the Kemble Water Group, to service their debt obligations and working capital requirements. External shareholders have not received any distributions during the period to 31 March 2018.

4. 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.

5. 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 2018 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 March 2019 to March 2020 and an information sheet on additional conformed interest cover ratio calculation are included in Appendices 1 and 3 respectively.

Table 10 Senior and Class A net debt – breakdown of calculation for the year to 31 March 2018

Senior net debt		Class A net debt	
31 March 2018 (£m)		31 March 2018 (£m)	
Senior net debt per accounts	11,336.2	Senior net debt per accounts	11,336.2
Less subordinated intercompany debt	0.0	Less Class B debt	(1,125.6)
Less intercompany loans	(300.0)	Less intercompany loans	(300.0)
Less accrued interest	(208.7)	Less accrued interest	(208.7)
Add derivative financial liabilities	78.0	Add derivative financial liabilities	78.0
Add unamortised debt fees	234.9	Add unamortised debt fees	234.9
Senior net debt per compliance certificate	11,140.4	Class A net debt per compliance certificate	10,014.8

Table 11a Conformed net cashflow

31 March 2018 (£m)	
Cashflow from operations	1,063.3
Reversal of capex creditor	Nil
Add back Impact of IP revenues and payments	1.2
Net cashflow	1,064.5

Table 11b Net interest paid - breakdown of calculation for the year to 31 March 18

31 March 2018 (£m)	
Interest paid per accounts	318.1
Interest received per accounts	(93.7)
Net interest paid per accounts	224.4
Capitalised borrowing costs	100.7
Intercompany interest received	20.7
Net interest paid per covenant	345.8

TWUL receives interest on its £1,974.7m (31 March 2017: £1,974.7m) intra-group loan to TWUH. 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.

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

Table 12 Depreciation

Depreciation – as used in additional conformed interest cover ratios

	31 March 2018 (£m)
Water and wastewater depreciation (12/13 prices)	(463.2)
Factor to convert from 12/13 to outturn prices	1.1236
Depreciation (Outturn prices)	(520.5)

We confirm that in respect of the Calculation Date on 31 March 2018, by reference to the most recent financial statements in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement that the ratios are as detailed in the table below.

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

Table 13 The ratios – TWUL

Test date	31 March 2018	31 March 2019
Class A RAR	73.1%	73.9%
Conformed Senior RAR	81.3%	81.7%

Test date	31 March 2018	31 March 2019
Conformed Class A ICR	3.71	3.65
Additional Conformed Class A Adjusted ICR	1.89	1.99
Additional Conformed Senior Adjusted ICR	1.57	1.76
Additional Conformed Class A Average Adjusted ICR	1.85	1.85
Additional Conformed Senior Average Adjusted ICR	1.61	1.61

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.

Yours faithfully,

BRANDON RENNET

Chief Financial Officer and Director

For and on behalf of

THAMES WATER UTILITIES LIMITED

NICK FINCHAM

Director

For and on behalf of

THAMES WATER UTILITIES LIMITED

STEPHEN WHEELER

Director

For and on behalf of

THAMES WATER UTILITIES CAYMAN FINANCE LIMITED

TOM BOLTON

Director

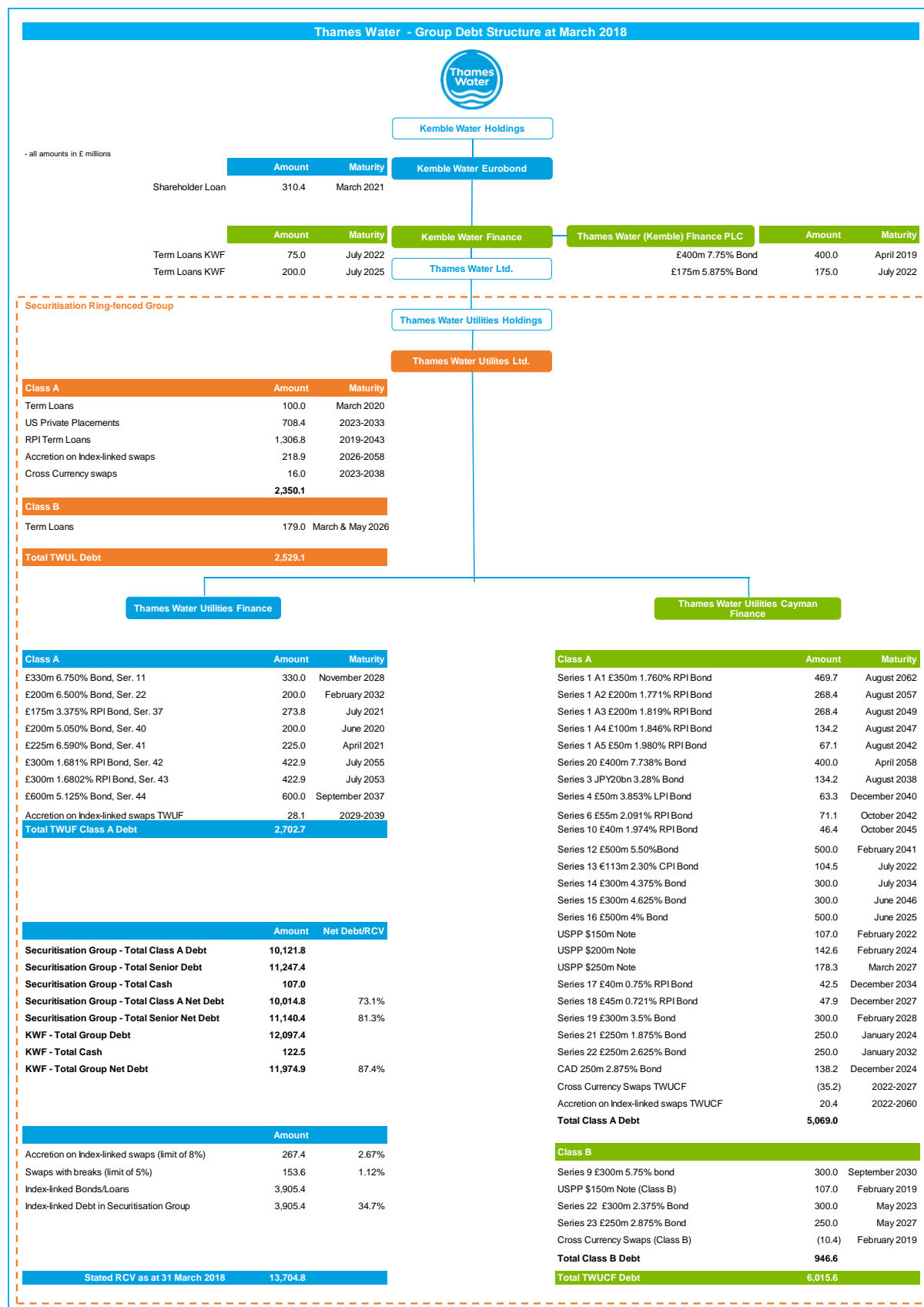
For and on behalf of

THAMES WATER UTILITIES FINANCE LIMITED

Appendix 1 Financial Ratio Calculations

Forward looking ratios for March 2020 and an information sheet on additional conformed interest cover ratio calculation have been provide 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 Group debt structure



The Group has access to a total of £1.5 billion facilities. As at 31 March 2018, this included a £950 million undrawn Revolving Facility (expiring in 2022), a £500 million 364 day undrawn facility that is renewed annually in August and a £65 million undrawn facility expiring in 2020

Appendix 3 PMICR covenant information sheet

Forward looking ratios for March 2020 and an information sheet on additional conformed interest cover ratio calculation have been provide 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 4 Thames Tideway Tunnel

During the 2017/18 financial year, TWUL continued to bill revenue for the construction of the Thames Tideway Tunnel (TTT). £26.9 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 significant progress at their three main drive sites. At Carnwath Road in the West, they have constructed an acoustic shed to minimise disruption to residents and have begun excavating the shaft. At Kirtling Street in the Central section, they have excavated the shaft down to 53 metres and constructed the launch tunnels for the TBMs. At Chambers Wharf in the East, they have completed the construction of a cofferdam to increase the size of the site enabling the installation of a diaphragm wall in the chalk in readiness for excavating the shaft. The project is on track to launch the TBMs during 2018/19.

In order to facilitate completion of certain low-value works in relation to the TTT in a timely and efficient matter, TWUL agreed to carry out certain minor preparatory/enabling works (including foreshore monitoring, supply of site compound cabins and certain works of a similar scope and nature) on behalf of BTL. Likewise BTL agreed to carry out certain minor works for and on behalf of TWUL. In order to allow for this, TWUL has entered in to a Works Services Agreement (WSA) which provides for TWUL and BTL to carry out certain elements of one another's works in respect of the Project. The WSA does not vary the position that TWUL is prohibited from undertaking the TTT project and is only entitled to undertake certain preparatory works as may set out by notice in writing by Ofwat and the Secretary of State. In respect of the preparatory works to be carried out by TWUL under the WSA, the WSA contains provisions that set out: (i) the scope of the preparatory works to be undertaken by TWUL; (ii) the requirements for those works (which are similar to those provisions applicable to TWUL's other related works); and (iii) arrangements for BTL to pay TWUL for the works TWUL has undertaken.

Contact details

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