



Thames Water Utilities Limited Investor Report

31 March 2022

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This report should be read in conjunction with, and as a supplement to, the Thames Water Utilities Limited (“TWUL”) annual report for the period ended 31 March 2022. Please refer to the Thames Water website www.thameswater.co.uk for this document in full.

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1. Overview for the year ended 31 March 2022

1.1 Thames Water Utilities Limited Annual Results for the year ended 31 March 2022

Promising early signs of progress in the first year of our turnaround

- Laid foundations to deliver a turnaround in performance for the benefit of customers, communities and the environment - new Executive team, operating model and programme to reconnect with our values
- Improved service for customers with significant reduction in complaints and £46 million of support for customers in vulnerable circumstances
- Delivered improvements in key operational performance metrics, including leakage and supply interruptions, with 60%¹ of our annual performance commitments met this year
- Significant increase in capital expenditure, with a record £1.3 billion invested to increase asset resilience
- EBITDA unchanged despite challenging inflationary conditions, driven by growth in allowed tariffs and a partial recovery of non-household consumption
- Higher reported losses reflecting increases in deferred tax and non-cash losses on financial instruments
- Revised business plan unanimously approved by shareholders, including an additional £2 billion of expenditure, supported by new equity to accelerate delivery of our Turnaround Plan

Sarah Bentley, Chief Executive Officer, Thames Water, said:

“Just over a year into our eight-year turnaround plan, we’ve achieved some major milestones. We have a new Executive team in place, reconnected with our values and behaviours, and created two regional teams to become more local in the way we deliver for our customers. In addition, we’ve started to bring the maintenance of our water network in house and announced that we will bring all our customer-facing telephone teams onshore in the UK.

“Most recently, we’ve announced a revised business plan, unanimously supported by shareholders, which underpins our commitment to delivering improved performance for our customers, communities and the environment. This additional investment, supported by new equity, will go towards improvements to our sewage treatment works for river health, increase resilience in our water network and drive ongoing improvements in customer service.

“We know our performance isn’t yet where it needs to be, and we are only at the beginning of our turnaround journey. However, there are early signs we’re on the right path with complaints down significantly, a 39% reduction in supply interruptions in the last two years and a 10% reduction in leakage, meaning we’ve hit our target for the third year in row. We’ve also invested a record £1.3 billion in our assets this year to improve our resilience and delivered solid financial results in challenging inflationary conditions.

“We still have a long way to go to turn Thames around. The success of our plan requires determination, collaboration and sustained investment, and I want to say a big thank you to colleagues, customers and stakeholders for your continued support as we build a better Thames Water. We look forward to working with you in the coming year as we progress our plan.”

¹ 29 of our 47 annual performance commitments (5 of our performance commitments do not have a target for this year)

Laid foundations for delivery of eight-year turnaround

- New Executive team in place, with strong turnaround expertise
- Revised £11.5 billion business plan approved unanimously by shareholders
- Shareholders have committed £500 million in new equity in 2022/23 to support delivery of the revised business plan; working with shareholders on plans to provide a further £1.0 billion of equity funding (which will be subject to certain conditions) over the rest of the current regulatory period
- Implementing a new operational model to drive regional focus and improve performance for customers and the environment
- Launched new work management system to replace 30-year-old legacy systems
- On track to insource management of repair and maintenance of water network by end of October 2022, and for all customer-facing telephone service teams to be based in the UK by end of 2023
- Rolling out programme to reconnect colleagues with values and behaviours, and support increased engagement
- Developing improved engagement plans, recognising the need to deliver a significant change agenda in a challenging economic environment

Early signs of improving trends in operational performance

- Met over 60%¹ of our annual performance commitments this year
- Improving trends in majority of customer and operational KPIs
- 43% less household complaints², but much further to go on C-MeX as we remain 17th out of 17 companies
- 39% reduction in supply interruptions in two years
- 10% reduction in leakage, meeting target for the third year in a row
- 20% reduction in sewage discharges
- Major flash flooding in London affected waste metrics, including sewer flooding³

Delivered solid underlying results in challenging inflationary conditions

- Revenue up 3% to £2.2 billion, driven by growth in allowed tariffs and a partial recovery in non-household consumption as UK Government Covid-19 restrictions eased
- Invested a record £1.3 billion, a 22% increase as we ramp up capital delivery programme to improve resilience
- EBITDA unchanged at £1.1 billion, reflecting high ongoing supply chain inflation
- Reported loss after tax of £973 million, primarily driven by a non-cash loss on financial instruments and a one-off deferred tax charge due to the increase in corporation tax rate to 25%
- Strong growth in operating cash flow, benefitting from improved cash collection rates, and decreases in working capital and pension contributions
- No dividends paid to external shareholders for fifth year running; £37 million distribution to service group debt at the Kemble level and group related costs

¹ 29 of our 47 annual performance commitments (5 of our performance commitments do not have a target for this year)

² Last year in January 2021 the CCW methodology by which complaints are reported changed to align the industry, removing the automatic categorisation of repeat contacts as complaints. Therefore, comparisons cannot be fully drawn between our full year 2020/21 and 2021/22 performance outturn.

³ Increasing the penalty by c. £20 million

Taking action on river health, in line with our progressive and transparent stance

- Commitment to reduce the annual duration of sewage discharges into rivers across our region by 50% by 2030, and by 80% in sensitive catchments
- £38 million invested in upgrading our sewage treatment works at Beckton
- Working with our partners on a pilot project in Oxford area results in Port Meadow becoming only the second UK river to be given designated bathing water status
- Live spills alerts from 468 permitted locations on track for the end of 2022
- Cooperating fully with both Ofwat's and the Environment Agency's ongoing investigations into sewage discharges

Making a positive difference so our customers, communities and the environment can thrive

- Increased support for customers as they deal with the lingering impacts of Covid-19, and rising energy prices and household costs – over £46 million of support through social tariffs and 5% of households now helped through priority services register
- Pioneering smarter water catchments plans underway for the Rivers Crane, Chess and Evenlode, and facilitating increased investment to improve river quality and biodiversity
- Self-generating 24% of our energy needs
- Progress on road to net zero by 2030 with first direct gas-to-grid project from Deephams sewage treatment works and trialling first electric vehicles
- Further progress on our journey to become a more diverse and inclusive organisation, with recognition as one of Stonewall's Top 100 Employers for LGBTQ+ commitments in the workplace and 'gold' status from the Armed Forces Covenant employer recognition scheme for our ex-military recruitment strategy

Financial performance

Year ended	31 March 2022			31 March 2021		
	Underlying	BTL ¹	Total	Underlying	BTL ¹	Total
Revenue (£m)	2,092.0	84.9	2,176.9	2,032.9	73.8	2,106.7
Operating expenses (£m)	(1,843.3)	(0.1)	(1,843.4)	(1,739.5)	(0.2)	(1,739.7)
Operating profit (£m) ²	344.4	84.8	429.2	415.2	73.6	488.8
EBITDA (£m)	1,029.4	84.8	1,114.2	1,034.4	73.6	1,108.0
Net finance expense (£m)	(384.5)	–	(384.5)	(208.1)	–	(208.1)
Net (loss) on financial instruments (£m)	(895.5)	–	(895.5)	(522.2)	–	(522.2)
(Loss)/Profit before tax (£m)	(935.6)	84.8	(850.8)	(315.1)	73.6	(241.5)
(Loss)/Profit after tax (£m)	(1,042.0)	68.7	(973.3)	(258.1)	59.6	(198.5)
Capital expenditure including intangibles (£m)	1,344.0	–	1,344.0	1,105.0	–	1,105.0
Operating cash flow (£m)	1,191.4	1.6	1,193.0	931.2	1	932.2
Net debt (statutory) (£m)	12,935.0	–	12,935.0	12,334.1	–	12,334.1
Dividends paid to immediate parent company (£m)	37.1	–	37.1	32.9	–	32.9
Distributions paid to external shareholders (£m)	–	–	–	–	–	–
Gearing (%) ³	80.6	–	–	83.2	–	–
Credit Rating	–	–	Baa2 stable/ BBB+ watch negative	–	–	Baa2 stable/ BBB+ negative outlook

1. See page 140 of our Annual Report and Sustainability Report 2021/22 for information about the Bazalgette Tunnel Limited ("BTL") arrangement
2. Operating profit includes revenue and other operating income, offset by operating expenses
3. Ratio of covenant net debt to Regulatory Capital Value ("RCV").

Read our [Annual Report and Sustainability Report](#) as well as our [Annual Performance report](#) available on our website: <https://www.thameswater.co.uk/about-us/investors/our-results>

1.2 Revised business plan, 2020-25

The new executive team of Thames Water set out a turnaround plan in March 2021 to drive a significant improvement in TWUL's performance. On 29 June, the Board of TWUL approved an updated business plan.

The business plan sets out a £11.5 billion (in AMP7 totex (real 2017/18 prices)) programme of expenditure to improve operating performance, requiring a £2 billion increase in expenditure, compared to the £9.6 billion Final Determination in PR19. The business plan, developed by the newly appointed executive team, has the full backing of TWUL's shareholders, with the plan being unanimously approved by the Board of Kemble Water Holdings Limited on 30 June 2022. The turnaround plan is intended to position Thames Water for the PR24 assessment and for a Final Determination that, together with future equity investment, supports the 8-year turnaround plan that will deliver transformational improvements for customers, communities and the environment.

A key stage of the turnaround plan will be the approval of a further updated business plan together with a PR24 business plan which, together with future equity investment, will position Thames Water for the PR24 assessment.

In order to implement its current business plan, TWUL has assumed £1.5 billion of equity to, amongst other things, accelerate compliance spending, invest in improving operational performance and increase financial resilience.

This assumption is made on the following basis:

- To support TWUL in the delivery of its business plan, its shareholders have provided an Equity Commitment Letter where the shareholders have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in full by TWUL in March 2023. Given the initial equity commitment has been approved by shareholders' investment committees, is not subject to any performance-related conditions and can be drawn in March 2023, the TWUL Board believes it is reasonable to incorporate £500 million of equity funding in its assessment.
- Shareholders have further evidenced their support for TWUL and its business plan through an Equity Support Letter where the shareholders have committed to hold investment committee meetings (for their respective institutions) as a path to obtaining approval (in the discretion of the investment committee) for funding their pro rata share of conditional commitments in respect of the further £1 billion of additional equity which is assumed in TWUL's business plan. Whilst this is not a legal commitment to fund, is subject to conditions and is dependent on governance arrangements between shareholders, given that TWUL and its shareholders are currently engaged in a collaborative process to agree and facilitate such equity commitments, the TWUL Board believes it is reasonable to incorporate this additional £1 billion of equity funding in its assessment.

The Equity Support Letter provides welcome assurances from Shareholders and, especially when taken together with the approval of the current business plan by the Shareholders, the Initial Equity to be provided under the Equity Commitment Letter, a discussion between the Board and the Shareholders on 24 June 2022 and the process which is ongoing to facilitate

commitments in respect of the additional £1 billion in equity, provided sufficient comfort at this time for the Board to consider that sufficient resources are or would be available to progress its current business plan.

The Shareholders have acknowledged that the turnaround of TWUL will continue into AMP 8 and that the PR24 business plan that TWUL will prepare and submit to Ofwat in April 2023 to achieve a regulatory determination that supports the turnaround will likely require the provision for further equity support to increase financial resilience.

The TWUL Board will carefully monitor progress towards achieving funding under the Equity Support Letter. In the scenario where sufficient equity commitments and/or funding were not forthcoming, TWUL, at that point, could revise its business plan to fit with then available funding, and adjust total expenditure down accordingly.

2. Regulatory and legal update

Competition Act

On 8 July 2019, Ofwat announced that it was investigating whether TWUL may have contravened the prohibition in Chapter II of the Competition Act 1998 by abusing a dominant position.

The allegations related to:

- the approach that TWUL has taken when installing digital smart meters and the impact that this has had on providers of data logging services and their customers;
- the accuracy of the data about customers that TWUL made available to retailers at the time of the opening of the business retail market; and
- the fairness of certain contractual credit terms that TWUL applies to retailers.

TWUL responded to a number of Ofwat information requests and questions. In late 2020, Ofwat's investigation was split into two - one covering competition issues and the other covering regulatory/licence issues.

As regards the competition elements of the investigation, Ofwat publicly consulted on the draft Competition Act commitments which TWUL put forward. Ofwat closed the investigation on 31 March 2022 and did not impose any penalties or make any findings against TWUL.

As regards the data accuracy elements of the investigation, on 6th December 2021 Ofwat confirmed that it had closed the investigation. In its decision document, Ofwat found TWUL to have contravened Conditions F, P and R2 of its licence and in its penalty notice, Ofwat imposed a nominal penalty of £1 in view of the undertakings offered by TWUL and compensation amounting to £11.2m which TWUL has agreed to pay.

Leakage regulatory update

In 2017, Ofwat commenced an investigation in relation to TWUL's leakage performance, following it failing to meet its performance commitment on leakage in 2016/17. In August 2018, at the conclusion of the investigation, TWUL entered into binding undertakings to improve its leakage performance and accepted that it had breached section 37 of the Water Industry Act (failure to maintain an efficient and economical system of water supply in its area) and Condition F6A of its Instrument of Appointment (failure to ensure sufficient financial and management resources and systems of planning and control, in order to carry out its regulated activities).

TWUL agreed to pay £65 million back to customers on top of £55 million in automatic penalties incurred for missing commitments to reduce leakage, making a total of £120 million returned to customers. This money came solely from Thames' shareholders and was reflected in customer bills for 2019/20. TWUL has been publishing its performance each month in tackling leaks and has appointed an independent monitor to certify the information in its monthly leakage reports. TWUL has also committed to increasing its customer engagement initiatives on leakage.

The undertakings also included a commitment to provide six-monthly reports to Ofwat on compliance with the undertakings. To date, eight reports have been submitted, in November 2018, May 2019, November 2019, May 2020, November 2020, May 2021, November 2021 and May 2022. The undertaking to achieve a leakage level of 606MI/d in 2019/20 was complied with, with leakage reported at 595MI/d.

Following the identification of a data issue related to the application of smart meter data, TWUL has commissioned an external firm of forensic accountants to look at its leakage calculation and reporting processes as well as the internal governance and assurance surrounding such processes. The findings are being used to help strengthen the approach in light of the very significant volume of valuable new data available from the smart metering programme and we are engaged with Ofwat in progressing this. TWUL has shared its Leakage Reporting and Insight Improvement Programme with Ofwat.

Legal proceedings update

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

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

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

TWUL is currently defending five sets of court proceedings (served in 2020 and 2021) commenced by different groups of Property Search Companies (“PSCs”) seeking refunds of fees paid for property search data, including Conveyancing 29 Drainage and Water (“CON29DW”) searches, from December 2013 to date. The PSCs allege that they have been overcharged for drainage and water searches and that information should have been made available to them pursuant to the Environmental Information Regulations 2004, at a lower cost than that charged. The position is replicated across all other Water & Sewerage Companies in England and Wales and the claims are a collective action brought by those different groups of PSCs against the industry. We are defending these claims, as are all the other water and sewage companies in England and Wales, who are aligned with our position. We have now received advice from counsel which is being considered alongside TWUL’s strategy in the case.

In February 2021, TWUL was fined £2.3m for a pollution incident at Henley sewage treatment works (“STW”) which occurred in April 2016. In May 2021, TWUL was fined £4m for pollution incidents at Hogsmill STW which occurred between February 2016 and September 2019. In November 2021, TWUL was fined £4m for a pollution incident at Hinksey stream dating from July 2016.

Since May 2021, as part of an ongoing compliance assessment by the Environment Agency (“EA”) in relation to discharges from storm infrastructure and adherence to environmental permits, TWUL has received a number of formal information requests from the EA to share event duration monitoring, flow data/inlet flow and other kinds of data in relation to its sewage

treatment sites. Since December 2021, those formal information requests have generally taken the form of requests under s108 Environment Act 1995, and the EA is understood to be carrying out a criminal investigation. TWUL continues to provide the EA with the information requested and the information supplied covers the vast majority of TWUL's sewage treatment sites. TWUL awaits further communications from the EA.

On 18 November 2021, Ofwat's Acting Chief Executive published an open letter to all water and sewerage company CEO's regarding company compliance with environmental permits and made a number of requests for information which TWUL complied with. The Ofwat letter stated that Ofwat would consider enforcement action for failure to comply with permit conditions and specifically mentions the WIA 1991 drainage duties and the requirement in licences to have sufficient financial resources, management resources and systems of planning and internal control (including management oversight) to carry out regulated activities. On 8 March 2022, Ofwat served a notice on TWUL under section 203 Water Industry Act 1991. The notice contained a number of questions regarding the operation of TWUL's sewage treatment sites. TWUL responded to these questions in April 2022 and continues to be in discussion with Ofwat. According to Ofwat's press release PN 24/22 dated 28 June, TWUL is now one of six water and wastewater companies being targeted by Ofwat in the next stage of its wastewater treatment works investigation.

3. Financing

TWUL raises debt either directly or through its wholly owned financing subsidiary, Thames Water Utilities Finance plc (“TWUF”).

Table 1 Current credit ratings

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

Under the terms of our licence, we are required to maintain investment grade credit ratings (Moody's CFR and S&P Class A), as assigned by external rating agencies. Maintaining investment grade ratings supports our ability to access efficiently priced debt across a range of markets to fund our investment programmes, whilst keeping bills affordable for our customers.

In May 2022, Moody's completed a periodic review of TWUL Group ratings, with the Corporate Family Rating (“CFR”) for TWUL continuing as Baa2 with a stable outlook (2021: Baa2 with stable outlook), and our securitisation group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (2021: Baa1 with stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (2021: Ba1 with stable outlook).

On 30 June 2022, Moody's commented that our recently announced revised business plan supported by new equity injections was credit positive given the sizeable shareholder commitment.

In December 2021, S&P placed our securitisation group companies' credit rating of BBB+ and BBB- (2021: BBB+ and BBB-) in respect of our senior secured (Class A) debt and our subordinated (Class B) debt respectively, on CreditWatch negative (2021: negative outlook). The negative CreditWatch placement indicates that S&P could lower the issue ratings if strong remedial measures do not enable TWUL Group to maintain certain key credit metrics within defined guidance ranges.

Recent financing activity

Table 2 Financing

Month	Entity	Type	Class	Amount (£m)	Further details
June 2021	TWUF	Term loan	B	180.0	Fully drawn, due June 2026
July 2021	TWUF	Term loan	B	20.0	Fully drawn, due June 2026
August 2021	TWUF	Liquidity facilities	A	550.0 ¹	Fully undrawn, renewed annually
September 2021	TWUL	Loan facility	B	100.0	Undrawn, expiry date September 2028
December 2021	TWUF	Revolving credit facility	B	75.0	Fully drawn, expiry date March 2025
January 2022	TWUF	Bond	A	483.6	€575 million, due January 2028
January 2022	TWUF	Bond	A	483.7	€575 million, due January 2032
April 2022	TWUL	Loan facility	B	150.0	Undrawn, expiry April 2029
May 2022	TWUL	Loan facility	A	100.0	Undrawn, expiry May 2029
May 2022	TWUL	Loan facility	B	50.0	Undrawn, expiry August 2025

Table 3 Repayments

Month	Entity	Type	Class	Amount (£m)	Further details
April 2021	TWUF	Bond	A	225.0	Maturity
June 2021	TWUF	Term loan	B	300.0	Early repayment of term loan, due in June 2023
July 2021	TWUF	Index linked bond	A	294.5	Including £175.0 million principal and £119.5 million accretion
April 2022	TWUL	Term loan	A	63.1	Early repayment of term loan, due March 2027
April 2022	TWUL	Term loan	A	11.9	Early part repayment of £63.1 million term loan, due March 2029

¹ split: £330.0 million debt service reserve and £220.0 million operations and capital maintenance reserve

Bonds outstanding at 31 March 2022

Table 4 Class A and B bonds outstanding at 31 March 2022

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 31 March 2022 (£m) ¹
TWUF	EUR	113	2.30%	18/07/2022	A	CPI Linked Bond	109.2
TWUF	GBP	300	2.38%	03/05/2023	B	Fixed Rate Bond	300.0
TWUF	GBP	84.7	0.88%	19/10/2023	A	Fixed Rate Bond	84.7
TWUF	EUR	500	0.19%	23/10/2023	A	Fixed Rate Bond	422.0
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	152.3
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	55.1
TWUF	USD	40	1.60%	23/12/2027	A	Fixed Rate Bond	30.4
TWUF	GBP	300	3.50%	25/02/2028	A	Fixed Rate Bond	300.0
TWUF	GBP	330	6.75%	16/11/2028	A	Fixed Rate Bond	330.0
TWUF	GBP	300	5.75%	13/09/2030 ²	B	Fixed Rate Bond	300.0
TWUF	USD	57	2.06%	12/11/2030	A	Fixed Rate Bond	43.3
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	49.0
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	125.2
TWUF	GBP	350	2.38%	22/04/2040	A	Fixed Rate Bond	350.0
TWUF	GBP	50	3.85%	15/12/2040	A	LPI Linked Bond	72.8
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	76.7
TWUF	GBP	55	2.09%	06/10/2042	A	RPI Linked Bond	81.8
TWUF	GBP	40	1.97%	12/10/2045	A	RPI Linked Bond	47.3
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	153.3
TWUF	GBP	200	1.82%	28/08/2049	A	RPI Linked Bond	306.6
TWUF	GBP	40	2.44%	12/05/2050	A	Fixed Rate Bond	40.0
TWUF	GBP	300	1.68%	11/07/2053	A	RPI Linked Bond	473.4
TWUF	GBP	300	1.68%	11/07/2055	A	RPI Linked Bond	473.4
TWUF	GBP	200	1.77%	28/08/2057	A	RPI Linked Bond	306.6
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	536.6
TWUF	EUR	575	0.88%	31/01/2028	A	Fixed Rate Bond	485.3
TWUF	EUR	575	1.25%	31/01/2032	A	Fixed Rate Bond	485.3
Total							9,740.3

The face value of Index Linked Bonds as at 31 March 2022 included accretion of £923.1 million.

¹ The face value of non-GBP debt has been translated to GBP at spot rate

² Callable on 13/09/2022

Net debt reconciliation

Table 5 Net debt reconciliation – 31 March 2022

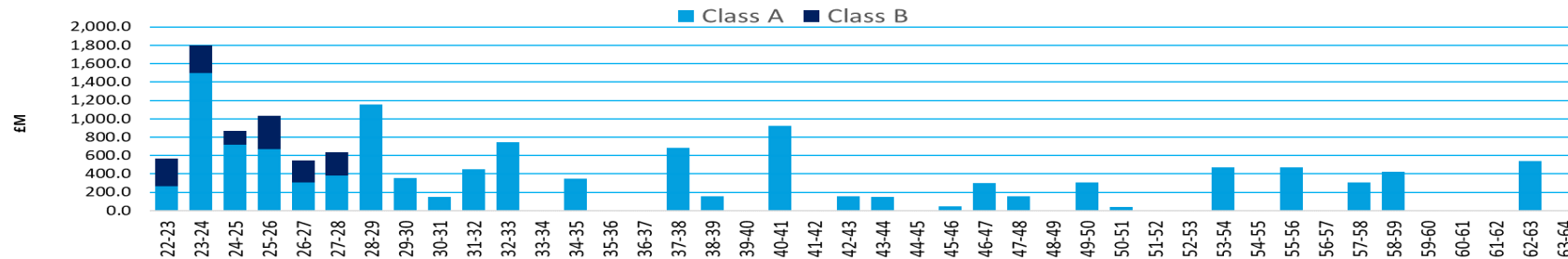
	£m
Face Value of Bonds including accretion Class A	8,890.3
Face Value of Bonds including accretion Class B	850.0
Total Face Value of Bonds including accretion	9,740.3
Class A USPP Notes	1,289.2
Class A RPI linked loans (including accretion of £202.0 million)	894.6
Accretion on Index Linked Swaps	598.7
Class A Floating Rate Loans	514.2
Class A Cross-currency swaps	(14.8)
Class B Loans	749.7
Cash and cash equivalents ¹	(425.8)
IFRS 16 Lease liability	63.3
Net Debt as per Compliance Certificate 31 March 2022	13,409.4
Unamortised debt issuance costs and discount	(79.7)
Subordinated amounts owed to group undertakings	5.5
Relevant derivative financial liabilities (Accretion and FX)	(583.9)
Interest payable on borrowings	159.1
Unamortised IFRS 9 transition adjustment	23.8
Cash relevant for covenant	0.8
Net Debt (statutory basis) as per annual report 31 March 2022	12,935.0

¹ Includes £425.0 million cash and cash equivalents as per annual report adjusted for £0.8 million cash relevant for covenant.

Maturity profile and headroom analysis

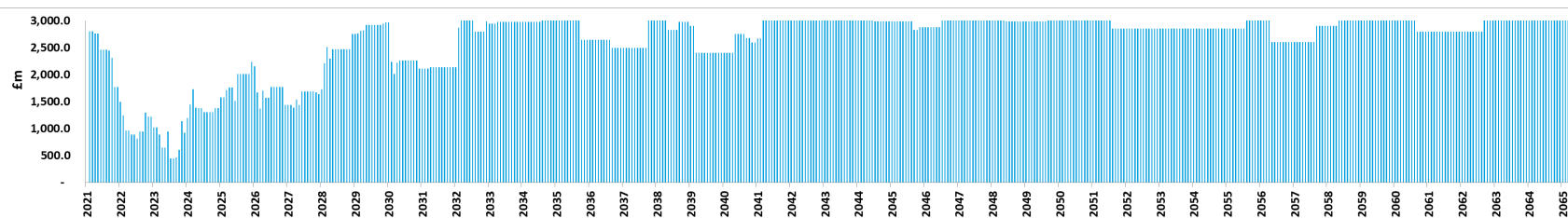
Graph 1 Debt maturity profile

At 31 March 2022, £1,425.8 million Class A RCF was fully undrawn. The £370.7 million Class B RCFs were fully drawn, with £150.0 million maturing in 2024/25 and £220.7 million in 2025/26. The £370.7 million Class B drawdowns were fully repaid during April 2022. £375.0 million of the Class A RCF was drawn as at 5th July 2022.



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. Following a STID proposal in June 2020, RCF drawdowns as at 31 March 2022 are reflected according to the facility maturity April 2024 (£75.0 million), March 2025 (£75.0 million) and November 2025 (£220.7 million).



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 6 Group & TWUL Derivative summary valuations

Derivative type	TWUL Group MtM as at 31 March 2022 (£m)	TWUL MtM as at 31 March 2022 (£m)
Cross currency swaps	(43.0)	(44.4)
Interest rate swaps	(106.7)	(106.7)
Index - linked swaps	(1,999.9)	(1,389.4)
Total	(2,149.6)	(1,540.5)

Note: MtM = Mark to market

Foreign currency debt instruments are converted to Sterling liabilities with cross currency swaps as included below. Swaps with mutual break clauses amount to 0.9% of RCV at 31 March 2022 (versus a limit 5% of RCV).

Table 7 Cross currency swaps

Issuer	Foreign Currency	Currency Amount (m)	£m	Maturity Date	MtM as at 31 March 2022 (£m)
TWUF	EUR	113	100	18/07/2022	(5.0)
TWUL	USD	55	38.7	22/03/2023	3.6
TWUF	EUR	500	453.2	23/10/2023	(25.9)
TWUF	USD	200	128.8	27/02/2024	22.2
TWUF	CAD	250	143.6	12/12/2024	8.9
TWUL	USD	285	200.4	22/03/2025	20.7
TWUF	USD	106	82.0	13/04/2026	0.6
TWUF	USD	250	161.0	01/03/2027	24.2
TWUF	USD	40	29.6	23/12/2027	0.5
TWUF	USD	131	101.3	13/04/2029	1.4
TWUF	EUR	50	44.1	13/04/2030	(2.3)
TWUF	USD	57	44.2	12/11/2030	(1.1)
TWUL	JPY	20,000	153.6	20/08/2038	(68.7)
TWUF	EUR	575	483.6	31/01/2028	(5.4)
TWUF	EUR	575	483.7	31/01/2032	(16.7)
Total			2,647.8		(43.0)

Table 8 Interest rate swaps

Issuer	Notional £m	Start Date	Maturity Date	MtM as at 31 March 2022 (£m)
Interest rate swaps (pay fixed)				
TWUL	150.0	16/03/2018	17/03/2025	(5.2)
TWUL	500.0	13/09/2016	14/03/2030	21.3
TWUL	300.0	14/07/2017	14/03/2030	6.1
TWUL	150.0	16/03/2018	14/03/2030	(4.2)
TWUL	300.0	14/03/2019	14/03/2030	(1.2)
TWUL	250.0	13/09/2019	14/03/2030	(3.6)
TWUL	400.0	16/03/2017	16/03/2030	(3.4)
TWUL	200.0	14/07/2017	16/03/2030	6.7
	2,250.0			16.5
Interest rate swaps (receive fixed)				
TWUL	500.0	24/01/2017	14/03/2030	(34.9)
TWUL	250.0	03/05/2017	14/03/2030	(17.8)
TWUL	200.0	17/07/2017	14/03/2030	(14.8)
TWUL	143.6	12/12/2017	14/03/2030	(8.9)
TWUL	350.0	22/03/2018	14/03/2030	(20.4)
TWUL	227.3	14/03/2019	14/03/2030	(12.0)
TWUL	100.0	17/07/2017	16/03/2030	(6.9)
TWUL	150.0	22/03/2018	16/03/2030	(7.5)
	1,920.9			(123.2)
Total	4,170.9			(106.7)

Table 9 Index linked swaps

The following RPI linked swaps have been entered into to convert the coupon on various bonds to RPI.

Issuer	Notional £m	Base RPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 31 March 2022 (£m)
TWUL	300	289.5	At maturity	25/10/2024	-	(50.9)
TWUL	200	289.5	At maturity	29/10/2024	-	(33.8)
TWUL	250	289.5	At maturity	31/10/2024	-	(42.4)
TWUL	190	291.0	At maturity	02/12/2024	-	(33.4)
TWUL	20	258.8	At maturity	31/03/2026	-	(6.9)
TWUL	50	289.5	At maturity	24/01/2029	-	(11.1)
TWUL	500	289.5	At maturity	11/02/2029	-	(123.1)
TWUL	100	289.5	At maturity	22/03/2029	-	(21.5)
TWUL	200	289.5	At maturity	31/10/2029	-	(45.8)
TWUL	100	291.7	At maturity	01/11/2029	-	(22.9)
TWUL	100	291.7	At maturity	13/11/2029	-	(21.5)
TWUL	100	291.7	At maturity	19/11/2029	-	(23.1)
TWUL	150	206.1	At maturity	28/09/2037	-	(163.6)
TWUL	250	206.1	28/09/2023	28/09/2037	12 years, maturity	(261.5)
TWUL	200	206.1	28/09/2022	30/09/2037	Every 5 years	(160.7)
TWUL	200	210.9	09/02/2032	09/02/2038	Maturity	(166.5)
TWUL	94.1	215.1	21/08/2023	20/08/2038	Every 5 years	(57.6)
TWUF	100	235.2	18/07/2022	18/07/2039	10 years, maturity	(103.4)
TWUF*	100	215.3	31/12/2024	31/12/2039	2029, maturity	(103.8)
TWUF	200	215.3	31/12/2024	31/12/2039	Every 5 years	(219.5)
TWUL	114.8	264.8	At maturity	09/04/2058	-	(143.1)
TWUF	100	218	17/02/2025	17/02/2060	Every 5 years	(203.1)
	3,618.9					(2,019.2)

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

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

Issuer	Notional €m	Base CPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 31 March 2022 (£m)
TWUF	113.0	96.3	At maturity	18/07/2022	-	19.3
	113.0					19.3

None of the index linked swaps contain break clauses. Accretion as a percentage of Class A net indebtedness is 5.1% (versus a limit of 8% of Class A net indebtedness).

Available facilities

As at 31 March 2022, TWUL had committed facilities of £2,446.4 million (£2,075.8 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 RCF consisting of Class A £1,425.7 million (fully undrawn as at 31 March 2022) and Class B £220.7 million (fully drawn as at 31 March 2022). The Class B amount drawn was fully repaid during April 2022 and £375.0 million of the Class A amount was drawn as at 5th July 2022.
- £75.0 million Class B RCF (fully drawn as at 31 March 2022 and fully repaid during April 2022).
- £75.0 million Class B RCF (fully drawn as at 31 March 2022 and fully repaid during April 2022).
- £100.0 million Class B term loan facility (fully undrawn as at 31 March 2022).
- £550.0 million 364-day undrawn liquidity facilities (split: £330.0 million debt service reserve and £220.0 million operations and capital maintenance reserve) renewed in August annually.

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 required to have (i) from S&P a short-term rating of A-1, or if no short-term rating, a long-term rating of A+; and (ii) from Moody's a short term rating of P-1 and a long term rating of A2, or if no short term rating, a long term rating of A1. Hedge Counterparties losing the minimum rating requirement must post collateral to TWUL or replace themselves as counterparty.

NatWest currently remains as Account Bank and Standstill Cash Manager and meets the minimum rating requirement.

Accretion charge

The income statement charge for the 12 months to 31 March 2022 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 10 Accretion charge

Instrument	12 months to 31 March 2022 (£m)	Accretion Paydowns 12 Months to 31 March 2022 (£m)	Total Cumulative Accretion (£m)
Index-linked Bonds	158.7	119.9	923.1
Index-linked Loans	70.9	26.1	202.0
Index-linked Swaps with accretion paydowns within 5 years	172.5	-	359.6
Index-linked Swaps with accretion paydowns beyond 5 years	145.2	-	239.1
Total	547.3	146.0	1,723.8

Cash and Authorised Investments

As at 31 March 2022, the following cash and cash equivalent investments were held.

Table 11 Cash and Authorised Investments

Counterparty type	TWUL (£m)	TWUF (£m)	Total (£m)
Cash and Cash Equivalents (Including AAA Money Market Funds)	424.7	1.1	425.8
Short Term Investments (Bank Deposits)	-	-	-
Total cash and investments¹	424.7	1.1	425.8

4. Dividends

No distributions were made to external shareholders for the year ended 31 March 2022 (2021: £nil). During the year, dividends of £37.1 million (2021: £32.9 million) were paid to TWUL's immediate parent company, Thames Water Utilities Holdings Limited ("TWUHL"), with all of the current year dividends being applied to servicing debt obligations and other related costs of other companies within the Kemble Water Group. During the year ended 31 March 2022, Kemble Water Finance Limited ("KWF") paid £67 million of interest, which was funded partly by distributions from TWUL and the remainder using cash reserves.

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.

¹ Includes £425.0 million cash and cash equivalents as per the financial statements, adjusted upwards by £0.8m for cash relevant to covenant.

We are currently reviewing arrangements for both our Water and Waste field operations activity with our Waste repair and maintenance contracts (approx. £90m per annum). We have awarded some of this activity and are closing negotiations on further activity areas. We are competitively conducting bidding for elements of our Water network activity currently with awards of new contracts expected in September. In our new model, simple Repair and Maintain activity will now be conducted inhouse

We are currently out to market for BPO (Customer Contact) services with a decision on a new outsourced provider due in the Autumn 2022.

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 the amounts referred to in the 31 March 2022 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 2023 to 31 March 2025 and an information sheet on the additional conformed interest cover ratio calculations are included in Appendices 1 and 2 respectively.

Table 12 Senior and Class A net debt – breakdown of calculation as at 31 March 2022

Senior net debt		Class A net debt	
31 March 2022 (£m)		31 March 2022 (£m)	
Senior net debt per accounts	12,935.0	Senior net debt per accounts	12,935.0
		Less Class B debt	(1,599.7)
		Less Lease Liability	(63.3)
Less Subordinated Amounts owed to group undertakings	(5.5)	Less Subordinated Amounts owed to group undertakings	(5.5)
Less accrued interest	(159.1)	Less accrued interest	(159.1)
Add back unamortised debt issuance costs and discount	79.7	Add back unamortised debt issuance costs and discount	79.7
Add relevant derivative financial liabilities (Accretion and FX)	583.9	Add relevant derivative financial liabilities (Accretion and FX)	583.9
Less IFRS 9 transition Adjustment	(23.8)	Less IFRS 9 transition Adjustment	(23.8)
Less cash relevant for covenant	(0.8)	Less cash relevant for covenant	(0.8)
Senior net debt per compliance certificate	13,409.4	Class A net debt per compliance certificate	11,746.4

Table 13a Conformed Net Cash Flow

	31 March 2022 (£m)
Cashflow from operations	1,193.0
Exceptional items	-
Reversal of capex creditor	-
Add back Impact of IP revenues and payments	-
Add Deferral of K	-
Conformed Net Cash Flow	1,193.0

Table 13b Net interest paid - breakdown of calculation for the year to 31 March 2022

	31 March 2022 (£m)
Interest paid per accounts	271.5
Interest received per accounts	(113.2)
Net interest paid per accounts	158.3
Capitalised borrowing costs	115.3
Facility fees paid	5.8
Intercompany interest received	3.6
Net interest paid per covenant	283.0

TWUL receives interest on its £1,693.4 million (2021: £1,693.4 million) intra-group loan to TWUHL. During the year ended 31 March 2022 £3.6 million interest was received from TWUHL (2021: £21.2 million). For the calculation of covenant interest cover ratios, TWUL excludes the interest it receives on this loan from the calculation of net interest paid.

For the purpose of this calculation the tax effect of eliminating the intercompany 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 current cost depreciation and infrastructure renewals charge 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 14 Depreciation

Depreciation – as used in additional conformed interest cover ratios

Test date	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Water and wastewater depreciation	(639.2)	(661.0)	(708.5)	(720.1)
Factor to convert to outturn prices	1.0836	1.1309	1.1543	1.1826
Depreciation (Outturn prices)	(693.8)	(747.5)	(817.8)	(851.6)

We confirm that in respect of the Calculation Date on 31 March 2022, 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 15 The ratios – TWUL

Test date	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Class A RAR*	70.6%	70.2%	69.2%	71.5%
Conformed Senior RAR*	80.6%	80.3%	80.8%	82.9%

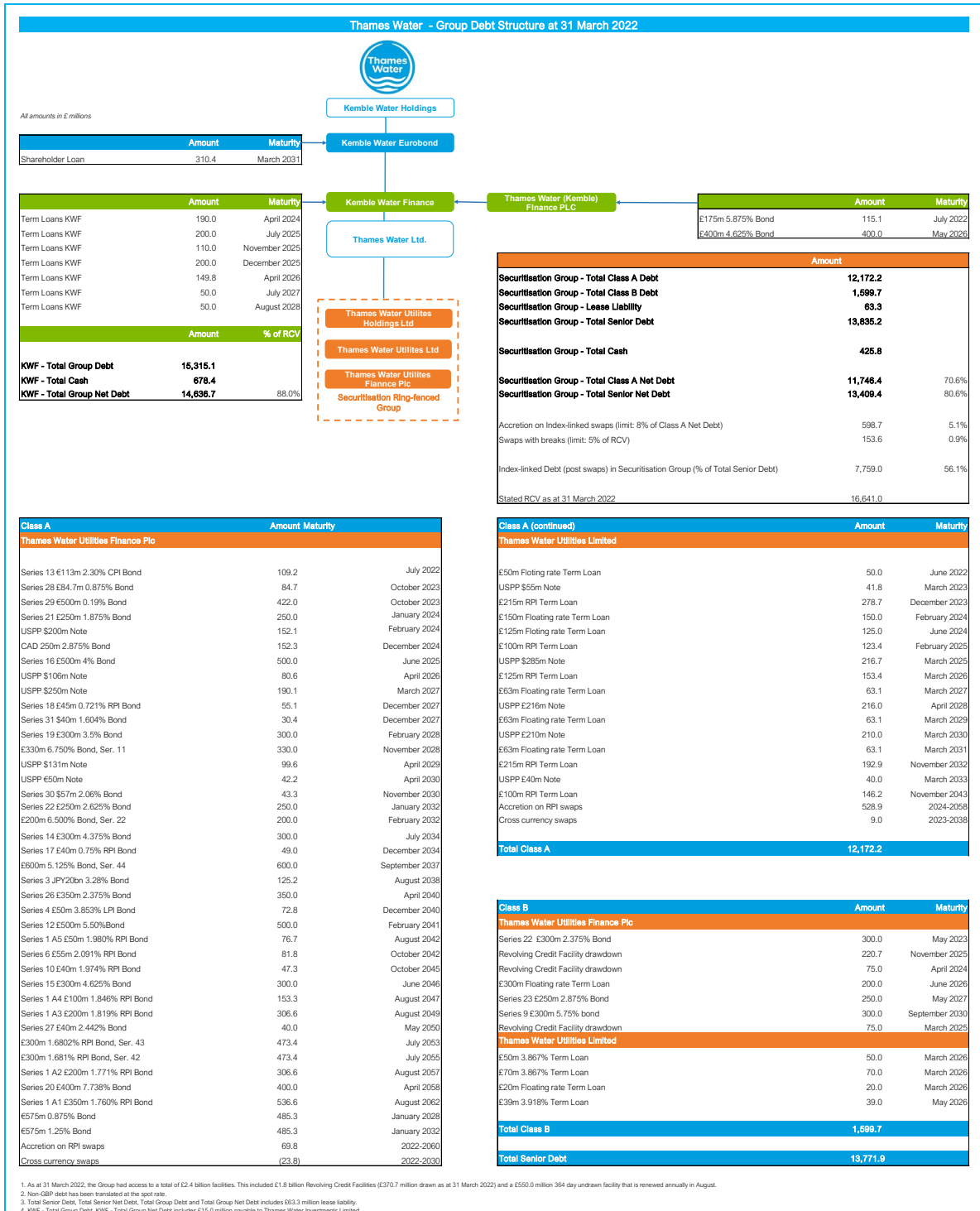
Test date	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Conformed Class A ICR	4.97	4.68	4.91	5.45
Additional Conformed Class A Adjusted ICR	2.08	1.64	2.06	2.51
Additional Conformed Senior Adjusted ICR	1.76	1.39	1.70	2.04
Additional Conformed Class A Average Adjusted ICR	1.93	2.07	2.07	2.07
Additional Conformed Senior Average Adjusted ICR	1.62	1.71	1.71	1.71

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 - Leases

Following a STID Proposal in March 2019 which was approved by the majority creditors, the definition of “Permitted Financial Indebtedness” was amended to include lease arrangements that would not have been treated as “Financial Indebtedness” prior to the adoption of IFRS 16. It is noted that the amount of Financial Indebtedness, including that under such operating leases, is subject to restriction through the Senior RAR covenant and, in addition, there is a new sub-cap for operating leases (included as part of the consent process) of 2% of RCV. At 31 March 2022 the lease liability was 0.4% of RCV.

7. Group debt structure (as at 31 March 2022)



We also confirm that:

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

Yours faithfully,



ALASTAIR COCHRAN

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 2023 to March 2025 have been provided to the Security Trustee and the Facility Agent as required by the CTA. This information is not however included in the published Investor Report. Secured creditors may register their interest in receiving a full version of the investor report by contacting the Security Trustee, the Facility Agent and Thames Water as appropriate.

Appendix 2 PMICR covenant information sheet

Calculations for forward looking ratios for March 2023 to March 2025 have been provided to the Security Trustee and the Facility Agent as required by the CTA. This information is not however included in the published Investor Report. Secured creditors may register their interest in receiving a full version of the investor report by contacting the Security Trustee, the Facility Agent and Thames Water as appropriate.

Appendix 3 Thames Tideway Tunnel

During the 12-month period ended 31 March 2022, TWUL continued to include costs within its bills to wastewater customers for the construction of the Thames Tideway Tunnel (TTT). £84.9 million of revenue was recognised in the period, which is, when collected, passed on to Bazalgette Tunnel Limited (BTL).

As a result of the arrangements in place for the delivery of TTT and related accounting treatment, our revenue will increase but there will be no associated costs during the construction phase (except for potential bad debt expenses). This will increase the profits during the construction phase but not the cashflows, therefore the Directors have excluded the monies from the 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.

Progress continues in support of the Tideway construction works, with the key focus being developing the plan for the commissioning of the tunnel system including how the sites will be activated and tested at the end of 2023. In the period, all elements of asset modifications required when the tunnel system is placed into service commenced their construction phases. The programme will ensure control system readiness for the commissioning of the London Tideway Tunnels System. Works on site at the necessary modifications to the inlet works structure at Beckton Sewage Treatment Works are ongoing. This project will deliver the required extension works by mid-2023 to ensure readiness for the activation of the London Tideway Tunnel system.

BTL, which trades as Tideway, is a separate privately financed company appointed in 2015 under a separate regulatory regime and is responsible for building, commissioning, financing and maintaining the Thames Tideway Tunnel. BTL has announced that Handover is expected by end of March 2025. At the end of March 2022, the project was 77 per cent complete with 29.2km of tunnel constructed, with 14.6km of secondary lining also complete. All of primary tunnelling is now complete. The permanent structures that will form the new public realm, are continuing to take shape.

Contact details

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