



# Thames Water Utilities Limited Investor Report

31 March 2024

## Important Notice

This report is being distributed in fulfilment of the requirements of a document, the Common Terms Agreement (the “CTA”), which governs the Company’s obligations of Thames Water Utilities Limited (“TWUL”, “Company”) to its bondholders and other financial creditors. It is directed to, and intended for, existing investors in the Company. No other persons should act or rely on it. The Company makes no representation as to the accuracy of forecast information (or any other information in this report, other than as set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances 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, TWUL and Thames Water Utilities Finance plc (“TWUF”) (together “TWUL Group”) annual reports for the period ended 31 March 2024. Please refer to the Thames Water website [www.thameswater.co.uk](http://www.thameswater.co.uk) for these documents in full.

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## 1. Overview for the year ended 31 March 2024

Chris Weston, Chief Executive Officer, said: "The challenges we face are well documented, but our operational and financial performance for the last year show good progress, and these positive results provide the right foundations on which to build and improve.

"We've delivered year-on-year improvements in our key water metrics, with leakage at its lowest ever level, and we're supporting more customers through our social tariffs. Revenue, EBITDA and operating cash flow all grew strongly, supporting a record £2 billion of investment in our infrastructure that will ultimately improve asset resilience, environmental performance, and customer service. Our teams should be immensely proud of what they've delivered during a difficult year and for maintaining focus on what matters most to our customers.

"We have set out an ambitious business plan for the next five years, and I believe that with consistent leadership and priorities, time and resources, and the appropriate regulatory determination, we will turn around this business and make it perform for all our customers, the environment and our wider stakeholders."

### Overview of financial performance

- Underlying profit after tax of £140 million, an improvement of £272 million
- 10% growth in underlying revenue to £2.4 billion reflecting an inflation linked increase in charges for water and wastewater services
- Underlying EBITDA of £1.2 billion, up 21% reflecting higher revenue and operating cost discipline
- Record level of capital expenditure of £2.1 billion, up 18% as the Company continues to increase investment in its ageing assets and improves network resilience
- Total liquidity of £2,456 million as at 31 March 2024

### Financial Performance

Year ended	31 March 2024				31 March 2023			
	Underlying	Exceptional	BTL <sup>1</sup>	Total	Underlying	Exceptional	BTL <sup>1</sup>	Total
Revenue	2,401.4	-	116.8	2,518.2	2,180.7	-	84.5	2,265.2
EBITDA	1,208.0	(43.9)	116.6	1,280.7	1,001.8	-	84.4	1,086.2
Profit / (Loss) after tax	139.8	(151.8)	87.4	75.4	(132.3)	-	102.2	(30.1)
Capital investment	2,083.7	-	-	2,083.7	1,769.7	-	-	1,769.7
Operating cash flow	1,382.0	-	(0.7)	1,381.3	1,114.4	-	1.8	1,116.2
Free cash flow	(613.5)	-	(0.7)	(614.2)	(491.0)	-	1.8	(489.2)
Dividends paid	(195.8)	-	-	(195.8)	(45.2)	-	-	(45.2)
Net debt	(15,247.0)	-	-	(15,247.0)	(13,958.6)	-	-	(13,958.6)
Senior gearing	80.6%				77.4%			
Senior PMICR	1.76x				1.60x			

<sup>1</sup>The financial statements include the amounts billed in relation to the construction of the Thames Tideway Tunnel, which are passed to Bazalgette Tunnel Limited ("BTL"), the independent company responsible for the construction of the tunnel. As this money is not retained by TWUL, it is excluded from the underlying results. Further information about the BTL arrangement can be found below.

## Operational performance and progress delivering the turnaround plan

- 19% reduction in lost-time injuries
- Significantly improved performance in the water quality compliance risk index, the regulatory measure of water quality, with a score of 1.43 from 10.96 in FY23
- 15% reduction in supply interruptions, after a change to the way the Company manages mains repairs
- Lowest ever annual average leakage level of 570.4ml/day, a year-on-year reduction of 7%
- Increase in pollutions to 350 (2022: 331), driven by a 40% increase in average rainfall. The number of serious pollutions decreased by 18%
- Water and wastewater complaints down 29% and 19% respectively, although total complaints up 10% driven by customer billing complaints

## Going concern

In assessing whether the TWUL Group and Company have adequate resources, for a period of at least 12 months from the date of approval of the financial statements, the Directors took a number of factors into account including its committed liquidity; its intention to take actions to extend the TWUL Group's and Company's liquidity runway, which could be achieved through a combination of actions including securing equity or debt funding, implementing cash conservation measures that do not threaten the TWUL Group's or Company's statutory duties, or securing creditor support; the need to secure a PR24 determination that is affordable, deliverable, financeable and investable; its intention to pursue all options to secure equity investment to fund the TWUL Group's PR24 business plan from new or existing investors following receipt of the PR24 draft determination; the risks associated with failing to comply with the Company's Instrument of Appointment; and the consequences of a Trigger Event in relation to its forecast financial covenant ratios in the 2024/25 financial year.

Accordingly, the Directors concluded that as at the date of the approval of the financial statements it was reasonable to assume that actions could be taken such that the TWUL Group and Company have adequate resources, for a period of 12 months from such date, to continue operations and discharge its obligations as they fall due. However, there existed material uncertainties in relation to the going concern basis adopted in the preparation of the financial statements given:

- the TWUL Group and Company do not have sufficient committed liquidity for a period of 12 months from the approval of the financial statements, and its ability to extend the liquidity runway beyond the assessment period is not wholly within the TWUL Group's or Company's control whilst a Trigger Event has occurred or prior to conclusion of the PR24 price review; and
- the downgrade to a sub-investment grade credit rating or a failure to meet legal obligations could at that time, depending on the circumstances and the approach of Ofwat, result in a breach of the Company's Instrument of Appointment.

## Gearing and interest cover

The net cash outflow for the year, together with non-cash changes to the carrying value of borrowings and leases (consisting of accrued interest and debt accretion), increased statutory net debt to £15,247 million, a year-on-year increase of £1,288 million. Net debt on a covenant

basis (as defined in Note 20 to TWUL's 2023/24 consolidated financial statements), was £16,071 million at 31 March 2024.

The increase in net debt was accompanied by a £1,002 million increase in Regulatory Capital Value to £19,947 million as at 31 March 2024. This resulted in senior gearing increasing to 80.6%, below the covenant event of default threshold of 95.0%. At the same date, the Post Maintenance Interest Cover Ratio ("PMICR") was 1.76x, above the minimum Trigger Event covenant requirement of 1.10x.

PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the TWUL Group's debt. This ratio is a key covenant set by lenders, and in modified forms, also used by credit rating agencies as part of their analysis when determining credit ratings.

Under the terms of the CTA, Thames Water is required to publish forecast financial covenant ratios for the next two financial years. Following the decision by shareholders not to commit new equity in March 2024, the TWUL Board reviewed whether it is reasonable to assume that new equity will be received within the current 2024/25 financial year for the purposes of calculating these forecasts. This review also considered delays in the PR24 price review announced by Ofwat, the consequential impact on the timetable for engaging equity investors, and that new capital is dependent on securing a financeable and investable final determination.

The Board concluded that although it is possible that equity will be received by 31 March 2025, this should no longer be assumed for financial covenant forecast calculation purposes. Consequently, the compliance certificate submitted to the Security Trustee in July 2024 showed non-compliance of certain forecast ratios for gearing and interest cover with Trigger Event thresholds. This places restrictions on the TWUL Group's ability to incur debt, pay dividends, and make payments to associated companies, and requires the Company to prepare a remedial plan for lenders.

The Company has stated that it will be engaging investors with the support of its advisors and has committed to engaging with creditors and their appointed advisors. This follows receipt of Ofwat's PR24 draft determination ("DD24") on 11 July 2024 and will include access to management. Within this context, the basis for a remedial plan will be the Company's business plan, which is in the process of being updated after receipt of DD24 and which is expected to be available in September 2024. The Company will submit its consultation response to DD24 on 28 August 2024.

## 2. Price Review 2024

Details of Price Review 2024 ("PR24") have been included on page 9 of TWUL's Annual Report 2023/24. On 11 July 2024, Ofwat published DD24, which is available on Ofwat's website:

<https://www.ofwat.gov.uk/regulated-companies/price-review/2024-price-review/draft-determinations/>

The Company will provide its consultation response to DD24 no later than 28 August 2024. Customers and other stakeholders can also provide their views to Ofwat by the same deadline.

Ofwat has announced that it intends to publish its final determination (“FD24”) on 19 December 2024, but this could be delayed until 31 January 2025. Following receipt of DD24, the Company will have two months to review it and to decide whether to accept Ofwat’s determination or to request a referral to the Competition and Markets Authority (“CMA”).

### 3. Turnaround plan

The Turnaround Plan is made up of 20 initiatives, to make quicker improvements for customers and the environment, and has continued to evolve to home in on the most urgent priorities. To make sure the Company is heading in the right direction, it is measuring incremental progress through leading, as well as lagging, indicators. For example, increased proactive cleaning of sewers will lead to a reduction in pollutions, with blockages currently causing the majority of pollutions from the network.

At the half-year results in December 2023, TWUL outlined its six operational priorities as health and safety, pollutions, customer complaints, water quality, leakage and supply interruptions.

In the Annual Report 2023/24, TWUL outlined its performance during the year for each of those priorities, and how the Company has further refined its approach, see page 12 of TWUL’s 2023/24 Annual Report.

### 4. Regulatory, business and legal update

#### Changes to the TWUL Board

On 1 April 2023, John Holland-Kaye, formerly Chief Executive of Heathrow, was appointed to the Board as a Non-Executive Director to represent USS. On 12 May 2023, David Waboso, an Independent Non-Executive Director, stood down. Despite the Board changes, the Independent Non-Executive Directors remain the single largest group on the Board, in alignment with strong governance.

On 27 June 2023, Sarah Bentley resigned as Chief Executive Officer and stepped down from the Board. Alastair Cochran (Chief Financial Officer) and Cathryn Ross (Strategy and External Affairs Director) acted as interim co-CEOs until the Chris Weston joined the Board as Chief Executive Officer on 8 January 2024.

On 10 July 2023, Sir Adrian Montague replaced Ian Merchant as Chair of the Board. Sir Adrian is a highly experienced Chair of large infrastructure businesses and was Chair of Anglian Water for five years between 2010 and 2015. From 2003 to 2010, he was Chair of British Energy, and he is currently Chair of Cadent Gas Limited and Porterbrook Holdings Limited.

On 14 December 2023, the appointment of Chris Weston as Chief Executive Officer was announced, with effect from 8 January 2024. Chris Weston was formerly Chief Executive Officer of Aggreko plc for seven years, a multi-national business operating in 45 countries. Previously he was at Centrica, where his last role was Managing Director of International Downstream and he was also a member of both the Board and the Executive Committee.

On 27 March 2024, Guy Lambert, a Non-Executive Director resigned and on 16 May 2024, Michael McNicholas, a Non-Executive Director resigned.

### Changes to the Board of TWUF

On 5 May 2023, Abigail Black and Jonathan Mogg resigned as directors of TWUF and were replaced by Jonathan Read and Ian Dearnley.

On 22 May 2024, Sir Adrian Montague, Chris Weston, Ian Pearson and Nick Land joined the board of TWUF and, following these appointments, David Gregg, Jonathan Read and Ian Dearnley resigned on 10 July 2024.

### Changes to the Board of Thames Water Utilities Holdings Limited (“TWUHL”)

On 10 July 2023, Alastair Montague was appointed as a director of TWUHL.

On 18 June 2024, Thomas Bolton resigned as a director of TWUHL and Chris Weston, Ian Pearson and Nick Land were appointed as directors of TWUHL.

On 8 July 2024, Paul O’Donnell and Nick Pike were additionally appointed as directors of TWUHL.

### Competition Act

On 8 July 2019, Ofwat announced that it was investigating whether TWUL may have contravened the prohibition on abusing a dominant position in Chapter II of the Competition Act 1988.

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. On 16 May 2024, Ofwat published a consultation on its intention to release TWUL from the commitments the Company made to address competition concerns, and the consultation was open for comment until 31 May 2024.

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. Both elements of the investigation have been closed.



On 7 August 2024, Ofwat published its decision to release TWUL from the commitments and undertakings previously given.

## 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 in 2019/20, 2020/21 and 2021/22.

Ofwat confirmed in January 2021 that 17 of the 34 original undertakings had been addressed. TWUL continues to provide six-monthly reports to Ofwat on compliance with the remaining undertakings. To date twelve reports have been submitted, in November 2018 and each May and November up to May 2024.

During 2021/22 TWUL created a Leakage Reporting and Insight Improvement Programme (LRIIP) which was designed to improve confidence in data and processes, improve resilience, provide greater accuracy, and apply consistency of reporting through assurance. In February 2023, TWUL successfully completed all 21 key deliverables that it set out to deliver.

TWUL has been having regular meetings with Ofwat on its leakage performance and continues to publish quarterly updates on its website. TWUL met its leakage target in 2019/20, 2020/21 and 2021/22, but weather events in 2022/23 led to TWUL missing its leakage reduction target by 14.1%; when it achieved a 10.7% reduction despite delivering 25% more activity. As annual leakage targets are based on a three-year rolling average, TWUL's 2022/23 outturn has continued to impact its regulatory performance outturn for 2023/24. Notwithstanding this, during 2023/24, TWUL has delivered a 43 MI/d (7 %) reduction in its annual average leakage position and leakage is now at its lowest ever reported level. However, due to the impact of weather events in 2022/23 and Ofwat's assessment of leakage target compliance on a three-year rolling average basis, TWUL is now adrift of its AMP7 regulatory three-year rolling average target of 17.4% with leakage having improved by 12.0%.

Although improvements have been delivered in 2023/24, 36% of TWUL's mains network remains over 100 years old and performance remains highly sensitive to environmental factors such as prolonged periods of hot and cold weather. Reporting to a three-year average target makes recovery from major events difficult since the impact is felt for several years. TWUL also commented on its leakage target compliance in its 2023/24 Annual Performance Report.

Continual leakage reduction is a key priority for TWUL as part of its Turnaround Plan and leakage transformation programme, which will:

- Change the operational and cultural approach to find and fix, working with suppliers to enhance detection performance and support “fixing bigger leaks faster”;
- Use smart meter data to better understand consumption and target detection more effectively - “dynamic demand”; and
- Improve data - increasing District Metered Area operability (75%), availability (79%) & zonal availability (91%) to improve accuracy of reporting and targeting.

By the end of 2025/26, TWUL is intending to deliver an annual leakage average outturn of 479MI/d which represents a 23% improvement compared to 2022/23 (subject to the final PR24 business plan). It is acknowledged that this is very ambitious and TWUL has continued to update Ofwat on its leakage performance through quarterly meetings during 2023/24.

### Sewerage treatment regulatory investigations

#### *Ofwat*

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 of the Water Industry Act 1991. The notice contained a number of questions regarding the operation of TWUL’s sewage treatment sites including compliance with environmental permits. TWUL responded to these questions in April 2022 and responded in September 2022 to a further section 203 request from Ofwat dating from July 2022. There have been further information requests and questions from Ofwat since then which TWUL has responded to. TWUL understands that all water and wastewater companies in England and Wales are now subject to Ofwat’s wastewater treatment works investigation.

On 11 December 2023 Ofwat informed TWUL of its provisional findings, that TWUL has contravened Condition P of its Instrument of Appointment, section 94 of the Water Industry Act 1991, and Regulation 4 and Schedule 2 of the Urban Waste Water Treatment Regulations 1994. In light of these findings Ofwat has provisionally proposed a financial penalty on TWUL and has also proposed to issue a draft enforcement order. TWUL has formally responded to these findings, and these findings are without prejudice to any further representations TWUL may make to Ofwat.

On 6 August 2024, Ofwat published notice under sections 20 and 22A(4) of the Water Industry Act 1991 of its proposal to issue an enforcement order and impose a financial penalty on TWUL. The notice sets out Ofwat’s proposed decision to impose a financial penalty on TWUL in the amount of £104.5m (representing 9% of TWUL’s relevant wastewater business turnover for 2023-24) as a result of its contraventions of the Urban Waste Water Treatment Regulations 1994, section 94 of the Water Industry Act 1991 and Condition P of its Licence. It also sets out Ofwat’s proposal to issue an enforcement order to TWUL, requiring it to remedy the contraventions that

it has identified. It is accompanied by the proposed enforcement order. Ofwat invites comments and representations on its proposed decision and proposed enforcement order by 10 September 2024. TWUL is currently preparing its response to Ofwat's consultation. The precise outcome of the investigation and the existence of any future financial obligations, or other consequences is not yet conclusive at this time.

#### *Environment Agency ("EA")*

In February 2021, TWUL was fined £2.3 million for a pollution incident at Henley sewage treatment works ("STW") which occurred in April 2016. In May 2021, TWUL was fined £4.0 million for pollution incidents at Hogsmill STW which occurred between February 2016 and September 2019. In November 2021, TWUL was fined £4.0 million for a pollution incident at Hinksey stream dating from July 2016. In December 2022, the Environment Agency ("EA") initiated a prosecution against TWUL for four environmental offences following a pollution incident at its Crawley Sewage Treatment works in October 2017. On 4 July 2023 TWUL was fined £3.3 million at Lewes Crown Court.

In November 2021, the EA launched "Operation Standard", which is a criminal investigation examining all water companies' compliance with permit conditions relating to storm sewage discharges. The EA has made a number of formal requests for data (sometimes under s.108 of the Environment Act 1995) across the vast majority of TWUL's sites including event duration monitoring, flow data/inlet flow and materials relating to the governance and management of this issue. TWUL continues to provide the EA with the information requested and awaits further communications from the EA which has also now undertaken a number of site visits to TWUL's sewage treatment works as part of its investigation.

#### [Drinking Water Inspectorate \("DWI"\) update](#)

TWUL is in discussions with the DWI in relation to perceived shortcomings in TWUL's compliance with the Security and Emergency Measures Direction (SEMD) following recent audits and also in relation to TWUL's progress with its lead replacement programme. There remains the possibility of enforcement action and financial penalties in relation to these issues. Discussions continue with the DWI.

DWI SEMD draft Orders : In April 2024, the DWI issued TWUL with a 'minded to enforce' letter in respect of alleged breaches of the Security and Emergency Measures Direction (SEMD) identified during the DWI's recent audits. TWUL then received two notices dated 1 July 2024 under s20 WIA 1991 from DWI (on behalf of Secretary of State for Environment, Food and Rural Affairs) stating that they propose to make final enforcement orders under s18 WIA 1991 ("Orders") on the basis that TWUL is said to be contravening conditions of its appointment in relation to the physical security of its assets and emergency planning under SEMD and therefore contravening section 208 of the WIA 1991. TWUL had until 1 August 2024 to make any representations. On 31 July 2024, TWUL sent a letter to the DWI, making representations in response to the draft Orders. It does not appear as if DWI currently intend to impose any financial penalties on TWUL under s22A WIA 1991. If the Orders are confirmed, TWUL will be under a statutory obligation to comply with the steps and reporting outlined in the Schedule of Works attached to the Orders, with failure to comply with these considered to be a contravention of the requirements of the relevant Order. The Schedule of Works require TWUL to complete various steps and to report by prescribed dates ranging from 2025 to 2030 for emergency planning and between 2025 and 2041 for physical security.

DWI Undertaking for Lead: TWUL has been in discussion with the DWI for some time in relation to various aspects of its lead replacement programme and the targeting of 54,000 lead communication pipe replacements by 31 March 2030 as well as proactive replacement of lead pipework within TWUL's ownership where more than the prescribed concentration of lead is found in samples. TWUL's duties in this area derive from s68 WIA 1991 (wholesomeness) and the requirements of the Water Supply (Water Quality) Regulations 2016 which establish the concentrations of particular substances allowed in water for it to be wholesome. TWUL offered undertakings under s19 WIA9 to address the DWI's concerns, which have been accepted by the DWI.

Guildford – DWI Proposed Enforcement: On 13 August 2024, TWUL was served with a Notice of Enforcement ("Notice") by the Drinking Water Inspectorate (DWI) under section 18 of the Water Industry Act 1991 (WIA). The Notice is in respect of alleged breaches of the Security and Emergency Measures Direction 2022 ("SEMD"). This followed the extreme weather event (Storm Ciaran) in November 2023 which caused power outages across the Guildford area, including outages at eight of TWUL's pumping and treatment sites across the Guildford water supply area. TWUL is invited to complete and submit to the DWI a draft undertaking Schedule in respect of the alleged breaches, by 11 September 2024.

### Ofwat Dividend Investigation

In October 2023, TWUL paid interim dividends of £37.5 million to its immediate parent Thames Water Utilities Holdings Limited and informed Ofwat accordingly at that time. As requested by Ofwat, TWUL subsequently provided further information on this matter and the basis on which this decision was made by the TWUL Board. On 10 May 2024, a draft 'minded to' letter was received stating that Ofwat has preliminarily found evidence of a potential breach of condition P(30) by TWUL of its licence. TWUL is in discussion with Ofwat in relation to this matter and there remains the possibility of enforcement action and financial penalties arising in relation to this, which, in line with the provisions in section 22A of the Water Industry Act 1991, would not exceed 10% of TWUL's relevant turnover for the preceding financial year.

Separately, on 24 June 2024, TWUL received a request for information from Ofwat in relation to the March 2024 interim dividend and in particular the Company's decision to approve a dividend for the purpose of surrendering of FY23 tax losses from TWUL. The Company responded to Ofwat's request on 5 July 2024. Ofwat is currently considering TWUL's response and it is therefore too early to know the outcome of Ofwat's enquiries and the extent and content of any enforcement action including financial penalties which may result from it.

### Moody's and S&P's Ratings Downgrades

As a result of recent ratings downgrades, TWUL does not currently hold any credit ratings which are investment grade and is therefore not in compliance with its obligations under Condition P(26) of its licence. Following discussions with Ofwat, management proposed that TWUL agrees a package of undertakings in relation to the non-compliance. The package of undertakings was agreed by the TWUL Board and sent to Ofwat on 5 August. On 7 August 2024, Ofwat published its public consultation on its provisional decision to accept undertakings from TWUL for the purposes of S19 of the Water Industry Act 1991 and also to appoint an independent monitor to

TWUL. The consultation closed on 16 August 2024. Ofwat publicly confirmed its decision to accept those undertakings on 23 August 2024.

## 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.

### *Property search fees*

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 CON29DW and Commercial DW searches, from 18 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, free of charge or for a small fee. The position is replicated across other Water & Sewerage Companies in England.

The Stage 1 trial on various preliminary issues commenced on 15 November 2023 and concluded on 19 December 2023 following closing submissions (and replies to these). The Stage 1 judgment was handed down on 28 June 2024. The judgment is largely favourable to the WASCs, with the Judge determining that the EIR regime does not govern orders for the CON29DW reports. Next steps are still to be determined and depend upon whether the PSCs will apply for permission to appeal the judgment. At a “consequential” hearing on 30 July, the Judge refused the Claimants’ permission to appeal (although they can re-apply to the Court of Appeal) and awarded TWUL and its co-defendants the costs of Stage 1 of the proceedings on the standard basis.

### *Competition Class Action*

In February 2023, TWUL received a letter before action from Leigh Day who were instructed by a client to bring collective proceedings against TWUL in the Competition Appeal Tribunal under s.47B Competition Act 1998. TWUL is subject to an ongoing opt-out collective proceedings claim in the Competition Appeal Tribunal alleging a breach of competition law in relation to the historic reporting of pollution incidents. Similar claims are also being brought against five other WaSCs.

On 4 March 2024, the proposed class representative served the collective proceedings claim form on TWUL. The claim form alleges that TWUL has abused a dominant position by (a) misleading regulators (Ofwat and the EA) regarding the number of pollution incidents that occurred during PR14 and PR19 (either deliberately or through inadequate monitoring of discharges) and (b) charging unfair prices over and above what TWUL would have been permitted to charge had TWUL complied with regulatory obligations and accurately reported pollution incidents. The claim form states that the estimated claim value is £159.1m (including interest).

On 14 June 2024, TWUL, along with the other proposed defendants filed a consolidated response to the application to certify the collective proceedings. The proposed class representative filed its reply to the response on 5 August 2024. The certification hearing is timetabled to take place in September 2024 with a further hearing in January 2025.

## 5. Financing

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

### Credit ratings

Table 1 below sets out the current ratings for the TWUL Group, which are no longer investment grade.

Table 1 Current credit ratings

	Moody's	S&P
Corporate Family Rating (“CFR”)	Ba2 (negative outlook)	N/A
Class A debt rating	Ba1 (negative outlook)	BB (negative outlook)
Class B debt rating	B3 (negative outlook)	BB (negative outlook)

Since the last investor report in December 2023, there have been credit rating downgrades by Moody's and S&P in April 2024, following the announcement that £500 million of new equity, anticipated by 31 March 2024, would not be provided by Thames Water's shareholders. In July 2024, S&P put the ratings on CreditWatch negative following publication of TWUL's 2023/24 annual results. This was followed later in the same month by both Moody's and S&P downgrading the credit ratings, after reflecting on TWUL's 2023/24 annual results and Ofwat's publication of TWUL's DD24 for the five-year regulatory period commencing 1 April 2025 (“AMP8”).

Under the terms of its Instrument of Appointment, the TWUL Group is required to maintain two investment grade credit ratings. This regulatory requirement to maintain two investment grade credit ratings is implemented by Ofwat monitoring specific credit ratings. The two monitored ratings are Moody's CFR and S&P's Class A debt rating. As a result of the downgrades in April 2024, the TWUL Group operates in a licence cash lock-up, which restricts certain payments to associated companies, including dividends, without the prior approval of Ofwat.

As a result of the downgrades in July 2024, TWUL is no longer in compliance with the requirements of the Instrument of Appointment. TWUL alerted Ofwat to the possibility of potential

credit rating downgrades in April 2024 and continues to work with Ofwat to maintain the ongoing financial resilience of the business. On 7 August 2024, Ofwat published a series of commitments that TWUL would agree to comply with. These commitments are built around four key elements and are subject to consultation:

- Appointment of an independent Monitor to report on the Company's progress, including against its transformation plan. The independent Monitor will report back to Ofwat frequently and be entitled to access to company information;
- Development and delivery of a suitable operational business plan to achieve turnaround;
- Required steps taken to deliver an equity raise;
- New non-executive director board appointments.

The commitments will remain in place until the Company regains two investment grade credit ratings.

TWUL continues to seek to secure a PR24 outcome that is affordable for customers, deliverable and financeable in AMP8. Accordingly, TWUL's PR24 business plans submitted to Ofwat have targeted credit ratios consistent with long-term investment grade credit debt ratings of Baa1 or BBB+.

#### Recent financing activity (excluding revolving credit facilities drawdowns and repayments)

In the year, there was £1,150.0 million equivalent of new debt issuance and £163.5 million drawn on term facilities (Table 2) and £1,698.4 million of debt was repaid (Table 3). Both amounts exclude revolving credit facilities drawdowns and repayments.

Table 2 Financing

Month	Entity	Type	Class	Amount (£m)	Further details
October 2023	TWUF	Bond	A	300.0	Due April 2040
October 2023	TWUL	Loan facility	A	98.5	Fully drawn, expiry December 2029
October 2023	TWUL	Loan facility	B	65.0	Fully drawn, expiry December 2027
January 2024	TWUF	Bond	A	275.0	Due April 2031
January 2024	TWUF	Bond	A	575.0	Due April 2044

During October 2023, two bilateral loans were extended to 2033:

- a £100 million Class A RPI loan agreement originally due 2025, with accreted principal of £145 million
- a £125 million Class A RPI loan agreement originally due 2026 and with accreted principal of £180 million was extended to 2033

TWUF's 364-day liquidity facilities totalling £550.0 million were renewed in August 2023 (£310.0 million debt service reserve and £240.0 million operations and capital maintenance reserve). During February 2024, the size of the facilities was increased to £550.2 million and rebalanced to £297.4 million of debt service reserve facilities and a £252.8 million operations and capital maintenance reserve facility. The facilities were undrawn as at 31 March 2024 and remain so at 31 July 2024. The £550.2 million facilities were renewed in August 2024.

**Table 3 Repayments**

Month	Entity	Type	Class	Amount* (£m)	Further details
May 2023	TWUF	Bond	A	300.0	Maturity
October 2023	TWUF	Bond	A	84.7	Maturity
October 2023	TWUF	Bond	A	362.8	Maturity, €400 million
October 2023	TWUF	Bond	A	90.4	Maturity, €100 million
December 2023	TWUL	Index linked bond	A	331.7	Maturity, £215 million principal and £116.7 accretion
January 2024	TWUF	Bond	A	250.0	Maturity
February 2024	TWUL	Term loan	A	150.0	Maturity
February 2024	TWUF	Private Placements	A	128.8	Maturity, \$200 million

\*Post cross currency swap (where applicable)



## Bonds outstanding at 31 March 2024

Table 4 Class A and B bonds outstanding at 31 March 2024

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 31 March 2024 (£m) <sup>1</sup>
TWUF	CAD	250	2.88%	12/12/2024	A	Fixed Rate Bond	146.1
TWUF	GBP	314.5	4.00%	19/06/2025	A	Fixed Rate Bond	314.5
TWUF	EUR	650	4.00%	18/04/2027	A	Fixed Rate Bond	555.5
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	65.5
TWUF	USD	40	1.60%	23/12/2027	A	Fixed Rate Bond	31.6
TWUF	EUR	575	0.88%	31/01/2028	A	Fixed Rate Bond	491.4
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	USD	57	2.06%	12/11/2030	A	Fixed Rate Bond	45.1
TWUF	EUR	1,000	4.38%	18/01/2031	A	Fixed Rate Bond	854.6
TWUF	GBP	275	7.13%	30/04/2031	A	Fixed Rate Bond	275.0
TWUF	GBP	250	2.63%	24/01/2032	A	Fixed Rate Bond	250.0
TWUF	EUR	575	1.25%	31/01/2032	A	Fixed Rate Bond	491.4
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	58.3
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	104.6
TWUF	GBP	350	2.38%	22/04/2040	A	Fixed Rate Bond	350.0
TWUF	GBP	300	8.25%	25/04/2040	A	Fixed Rate Bond	300.0
TWUF	GBP	50	3.85%	15/12/2040	A	LPI Linked Bond	78.6
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	91.4
TWUF	GBP	55	2.09%	06/10/2042	A	RPI Linked Bond	97.4
TWUF	GBP	575	7.75%	30/04/2044	A	Fixed Rate Bond	575.0
TWUF	GBP	40	1.97%	12/10/2045	A	RPI Linked Bond	52.6
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	182.9
TWUF	GBP	200	1.82%	28/08/2049	A	RPI Linked Bond	365.8
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	579.8
TWUF	GBP	300	1.68%	11/07/2055	A	RPI Linked Bond	579.8
TWUF	GBP	200	1.77%	28/08/2057	A	RPI Linked Bond	365.8
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	640.1
Total							<b>11,162.8</b>

The face value of Index Linked Bonds as at 31 March 2024 included accretion of £1,436.9 million.

<sup>1</sup> The face value of non-GBP debt has been translated to GBP at spot rate.

## Net debt reconciliation

Table 5 below sets out the composition of net debt on a covenant basis and a reconciliation to the net debt reported in the financial statements as at 31 March 2024.

**Table 5 Net debt reconciliation – 31 March 2024**

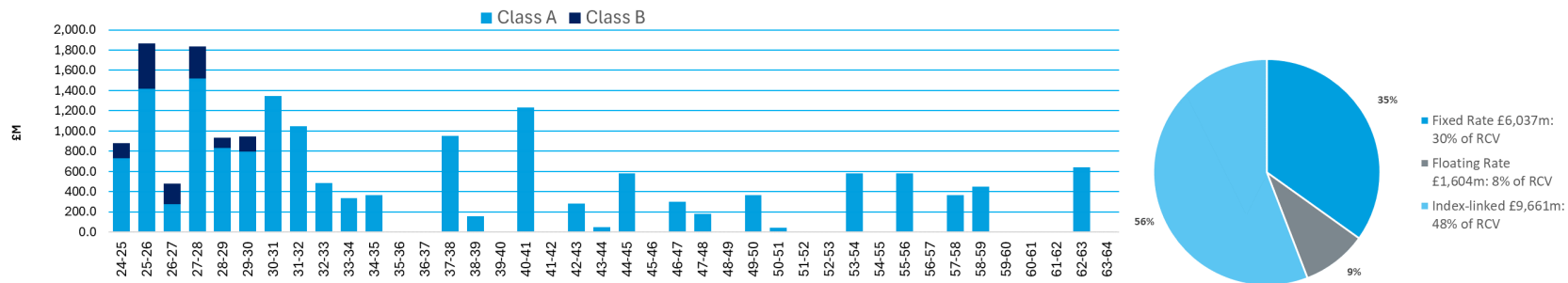
	£m
Face Value of Bonds including accretion Class A	10,912.8
Face Value of Bonds including accretion Class B	250.0
<b>Total Face Value of Bonds including accretion</b>	<b>11,162.8</b>
Class A USPP Notes	1,719.1
Class A RPI linked loans (including accretion of £239.0 million)	685.7
Accretion on Index Linked Swaps	1,083.8
Class A Floating Rate Loans	1,497.7
Class A Cross-currency swaps	39.0
Class B Loans	1,114.7
Cash and cash equivalents <sup>2</sup>	(1,284.5)
IFRS 16 Lease liability	53.0
<b>Net Debt as per Compliance Certificate 31 March 2024</b>	<b>16,071.3</b>
Unamortised debt issuance costs and discount	(92.2)
Relevant derivative financial liabilities (Accretion and FX)	(1,122.8)
Interest payable on borrowings	242.5
Unamortised IFRS 9 transition adjustment	22.5
Unamortised IFRS 9 fair value adjustment	(4.3)
Bank overdraft relevant for Net debt (statutory basis)	126.7
Cash not relevant for Net debt (statutory basis)	3.3
<b>Net Debt (statutory basis) as per annual report 31 March 2024</b>	<b>15,247.0</b>

<sup>2</sup> Includes £1,281.2 million cash and cash equivalents as per annual report 31 March 2024 adjusted for £3.3 million cash relevant for covenant.

## Maturity profile and headroom analysis – 31 March 2024

### Graph 1 Debt profile – Maturity and Type (post swaps)

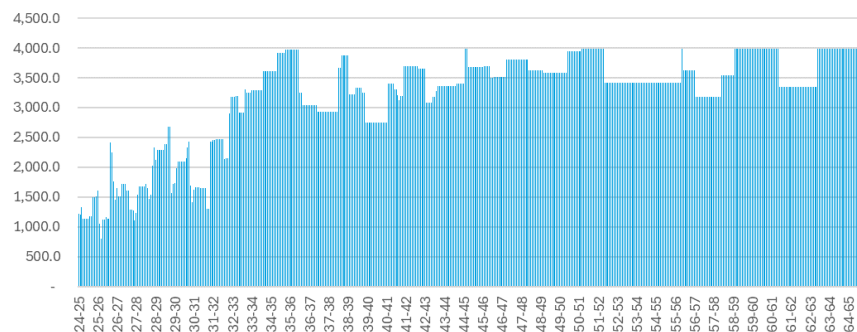
As at 31 March 2024, £1,060.0 million of the £2,151.2 million Class A RCFs was drawn, maturing in 2025/26. The £370.7 million Class B RCFs were fully drawn, with £150.0 million maturing in 2024/25 and £220.7 million in 2025/26. The £370.7 million Class B RCFs were fully repaid during April 2024. The remainder of the Class A RCFs were drawn during May 2024 and £120.0 million was repaid in August 2024 to ensure compliance with the maturity concentration restrictions when the Liquidity Facilities were renewed in August 2024. The chart below shows the 31 March 2024 position.



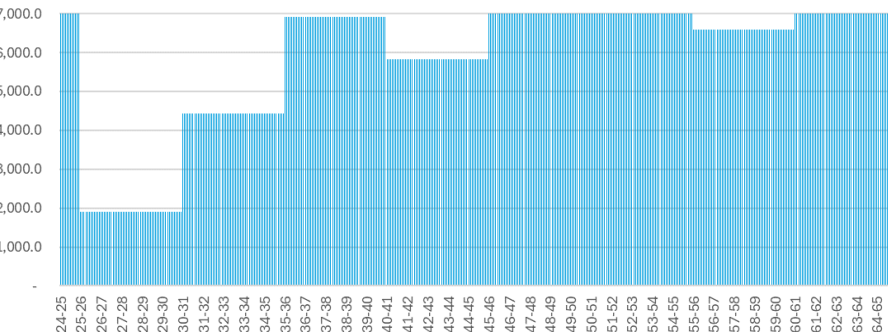
### Graph 2 Covenant headroom analysis

The TWUL Group is prohibited from entering into new secured credit facilities where i) debt equivalent to >20% of RCV matures in any 24-month period and ii) debt equivalent to >40% of RCV matures in any AMP. The following charts show headroom (£ million) for both covenants as at 31 March 2024 and so does not take into account subsequent changes.

£ million headroom for 24-month period



£ million headroom within AMP



## 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 TWUL Group & TWUL Derivative summary valuations**

As at 31 March 2024 (£m)	TWUL Group MtM*	TWUL MtM*
Cross currency swaps (Table 7)	(15.3)	(53.2)
Interest rate swaps (Table 8)	(41.3)	(41.3)
Index - linked swaps (Table 9)	(1,291.0)	(995.3)
<b>Total</b>	<b>(1,347.6)</b>	<b>(1,089.8)</b>

\*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 0.8% of RCV as at 31 March 2024 (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 2024 (£m)
TWUF	CAD	250	143.6	12/12/2024	3.8
TWUL	USD	285	200.4	22/03/2025	26.7
TWUF	USD	106	82	13/04/2026	3.8
TWUF	USD	250	161	01/03/2027	34.3
TWUF	EUR	650	576	18/04/2027	(5.4)
TWUF	USD	40	29.6	23/12/2027	2.1
TWUF	EUR	575	483.6	31/01/2028	7.0
TWUF	USD	131	101.3	13/04/2029	6.6
TWUL	USD	95	80.2	16/11/2029	(5.4)
TWUF	EUR	50	44.1	13/04/2030	(0.7)
TWUF	USD	57	44.2	12/11/2030	1.6
TWUF	EUR	1000	886.6	18/01/2031	(21.5)
TWUF	EUR	575	483.7	31/01/2032	6.3
TWUL	USD	256	216.1	16/11/2032	(14.0)
TWUL	USD	81	68.4	16/11/2037	(3.5)
TWUL	JPY	20,000	153.6	20/08/2038	(57.0)
<b>Total</b>			<b>3,754.4</b>		<b>(15.3)</b>

\*MtM = Mark to market

Table 8 Interest rate swaps

Issuer	Notional £m	Start Date	Maturity Date	MtM* as at 31 March 2024 (£m)
<b>Interest rate swaps (pay fixed)</b>				
TWUL	150.0	16/03/2018	17/03/2025	2.5
TWUL	500.0	13/09/2016	14/03/2030	69.2
TWUL	300.0	14/07/2017	14/03/2030	38.9
TWUL	150.0	16/03/2018	14/03/2030	13.0
TWUL	300.0	14/03/2019	14/03/2030	31.4
TWUL	250.0	13/09/2019	14/03/2030	24.3
TWUL	400.0	16/03/2017	16/03/2030	40.4
TWUL	200.0	14/07/2017	16/03/2030	27.9
	<b>2,250.0</b>			<b>247.6</b>
<b>Interest rate swaps (receive fixed)</b>				
TWUL	500.0	24/01/2017	14/03/2030	(75.7)
TWUL	250.0	03/05/2017	14/03/2030	(38.6)
TWUL	200.0	17/07/2017	14/03/2030	(32.9)
TWUL	143.6	12/12/2017	14/03/2030	(20.8)
TWUL	350.0	22/03/2018	14/03/2030	(51.5)
TWUL	227.3	14/03/2019	14/03/2030	(32.1)
TWUL	100.0	17/07/2017	16/03/2030	(16.7)
TWUL	150.0	22/03/2018	16/03/2030	(20.6)
	<b>1,920.9</b>			<b>(288.9)</b>
<b>Total</b>	<b>4,170.9</b>			<b>(41.3)</b>

\*MtM = Mark to market

## Table 9 Index linked swaps

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

Issuer	Notional £m	Base RPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM* as at 31 March 2024 (£m)
TWUL	300	289.5	At maturity	25/10/2024	-	(19.6)
TWUL	200	289.5	At maturity	29/10/2024	-	(13.0)
TWUL	250	289.5	At maturity	31/10/2024	-	(14.7)
TWUL	190	291.0	At maturity	02/12/2024	-	(57.3)
TWUL	20	258.8	At maturity	31/03/2026	-	(8.1)
TWUL	50	289.5	At maturity	24/01/2029	-	(14.8)
TWUL	500	289.5	At maturity	11/02/2029	-	(158.7)
TWUL	100	289.5	At maturity	22/03/2029	-	(26.4)
TWUL	200	289.5	At maturity	31/10/2029	-	(56.4)
TWUL	100	291.7	At maturity	01/11/2029	-	(29.3)
TWUL	100	291.7	At maturity	13/11/2029	-	(25.6)
TWUL	100	291.7	At maturity	19/11/2029	-	(29.2)
TWUL	250	320.2	At maturity	15/11/2032	-	(15.5)
TWUL	200	320.2	At maturity	17/11/2032	-	(22.8)
TWUL	100	320.2	At maturity	21/11/2032	-	(10.0)
TWUL	50	320.2	At maturity	22/11/2032	-	(5.5)
TWUL	50	320.2	At maturity	22/11/2032	-	(6.1)
TWUL	50	320.2	At maturity	23/11/2032	-	(5.6)
TWUL	300	320.2	At maturity	29/11/2032	-	(27.6)
TWUL	150	206.1	At maturity	28/09/2037	-	(115.8)
TWUL	250	206.1	28/09/2035	28/09/2037	maturity	(33.2)
TWUL	200	206.1	28/09/2027	28/09/2037	Every 5 years	(80.6)
TWUL	200	210.9	09/02/2032	09/02/2038	Maturity	(146.6)
TWUL	94.1	215.1	21/08/2028	20/08/2038	Every 5 years	(23.4)
TWUF	100	235.2	18/07/2032	18/07/2039	maturity	(20.5)
TWUF**	100	215.3	31/12/2024	31/12/2039	2029, maturity	(72.8)
TWUF	200	215.3	31/12/2024	31/12/2039	Every 5 years	(143.8)
TWUL	114.8	264.8	At maturity	09/04/2058	-	(49.6)
TWUF***	100	218	17/02/2025	17/02/2060	Every 5 years	(58.5)
	<b>4,618.9</b>					<b>(1,291.0)</b>

\*MtM = Mark to market

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

\*\*\* Accrued Accretion to 30 September 2023 due in February 2025 was paid early in September 2023.

None of the index linked swaps contain break clauses. Accretion as a percentage of Class A net indebtedness is 7.4% (versus a limit of 8% of Class A net indebtedness) as at 31 March 2024.

## Available facilities

As at 31 March 2024, TWUL had committed facilities of £2,602.4 million (£1,171.7 million undrawn) in place. The committed facilities consisted of the following:

- £1,646.4 million RCF consisting of Class A £1,425.7 million (£1,060.0 million undrawn as at 31 March 2024) and Class B £220.7 million (fully drawn as at 31 March 2024). The Class B amount drawn was fully repaid during April 2024. The remaining Class A RCF amount was fully drawn during May 2024 and £120.0 million was repaid in August 2024.
- £75.0 million Class B RCF (fully drawn as at 31 March 2024 and fully repaid during April 2024).
- £75.0 million Class B RCF (fully drawn as at 31 March 2024 and fully repaid during April 2024).
- £725.4 million Class A RCF (fully undrawn as at 31 March 2024), with £725.0 million drawn during June 2024.
- £80.6 million Class A term loan facility (fully undrawn as at 31 March 2024), with £80.0 million drawn during June 2024.

In addition there are £550.2 million 364-day undrawn liquidity facilities (£297.4 million debt service reserve and £252.8 million operations and capital maintenance reserve) renewed in August annually. The facilities were renewed on 7 August 2024.

## Counterparty rating requirements

There are minimum credit ratings requirements for TWUL Group 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 Group or replace themselves as counterparty.

National Westminster Bank plc currently remains as Account Bank and Standstill Cash Manager and meets the minimum rating requirement.

## Accretion charge

The income statement charge for 12 months to 31 March 2024 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 2024 (£m)*	Accretion Paydowns 12 Months to 31 March 2024 (£m)*	Total Cumulative Accretion as at 31 March 2024 (£m)
Index-linked Bonds	191.6	0.7	1,436.9
Index-linked Loans	48.5	125.5	239.0
Index-linked Swaps with 5 year accretion paydowns	56.3	76.1	159.0
Index-linked Swaps with less than 10 year original maturity	56.3	59.0	103.8
Index-linked Swaps other than included above	196.8	16.9	821.0
<b>Total</b>	<b>549.5</b>	<b>278.2</b>	<b>2,759.7</b>

\* Net of £7.0 million discount for early accretion paydowns.

## Cash and Authorised Investments

As at 31 March 2024, 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)	1,283.0	1.5	1,284.5
Short Term Investments (Bank Deposits)	-	-	-
<b>Total cash and investments<sup>3</sup></b>	<b>1,283.0</b>	<b>1.5</b>	<b>1,284.5</b>

## 6. Dividends

During the year, dividends were declared on two occasions: totalling £37.5 million in October 2023 and £158.3 million in March 2024. The Board takes the approval of any dividend extremely seriously and concluded these dividends were required for TWUL's financial stability. All dividends were approved by the TWUL Board in accordance with the Company's dividend policy and no distributions were received by external shareholders. The declared dividends were:

- two interim dividends totalling £37.5 million in October 2023, which enabled Kemble Water Finance Limited and its financing subsidiary to service external debt obligations through to 31 January 2024

<sup>3</sup> Includes £1,281.2 million cash and cash equivalents as per the annual report 31 March 2024 adjusted for £3.3 million cash relevant for covenant.



- two interim dividends totalling £158.3 million in March 2024 to enable Kemble Water Eurobond plc and Thames Water Limited to settle amounts owing to the Company for group relief surrendered, and Kemble Water Eurobond plc to make pension contribution payments to the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme defined benefit schemes on behalf of the Company.

For the seventh year in a row, no distributions were earned by shareholders, who own shares in the ultimate parent company, Kemble Water Holdings Limited.

## 7. 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. TWUL recently launched a new “Make v Buy” strategy to improve its assessment of activities which should be conducted in house versus the wider market.

TWUL is assessing a number of areas for their suitability for further outsourcing or insourcing currently.

TWUL awarded a suite of Framework agreements at the beginning of AMP7 to cover all Infrastructure and Non Infrastructure Capex work. These agreements have been extended to cover delivery through to the end of AMP8. The agreements are complemented by other Framework agreements for delivery of smaller schemes through non managing contractors, for direct delivery schemes and for smaller scale works. Individual procurement processes are also in place for certain relatively smaller schemes. TWUL also has separate Framework agreements for delivery of Mains Rehab through AMP8 and river restoration schemes.

## 8. 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.

Adjustments have been made to the figures referred to in the 31 March 2024 TWUL financial statements in order to arrive at the ratios below in accordance with the terms of the Common Terms Agreement.

Calculations for 31 March 2024 ratios, forward looking ratios for 31 March 2025 to 31 March 2026 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 – 31 March 2024

31 March 2024 (£m)		31 March 2024 (£m)	
Senior net debt per accounts	15,247.0	Senior net debt per accounts	15,247.0
		Less Class B debt	(1,364.7)
		Less Lease Liability	(53.0)
Less accrued interest	(242.5)	Less accrued interest	(242.5)
Add back unamortised debt issuance costs and discount	92.2	Add back unamortised debt issuance costs and discount	92.2
Add relevant derivative financial liabilities (Accretion and FX)	1,122.8	Add relevant derivative financial liabilities (Accretion and FX)	1,122.8
Less unamortised IFRS 9 fair value adjustment	4.3	Less unamortised IFRS 9 fair value adjustment	4.3
Less unamortised IFRS 9 transition adjustment	(22.5)	Less unamortised IFRS 9 transition adjustment	(22.5)
Less bank overdraft not relevant for covenant	(126.7)	Less bank overdraft not relevant for covenant	(126.7)
Less cash relevant for covenant	(3.3)	Less cash relevant for covenant	(3.3)
Senior net debt per compliance certificate	16,071.3	Class A net debt per compliance certificate	14,653.6

Table 13a Conformed Net Cash Flow

	31 March 2024 (£m)
Cashflow from operations	1,381.3
Exceptional items	37.6
Reversal of capex creditor	-
Add back Impact of IP revenues and payments	-
Add Deferral of K	-
Conformed Net Cash Flow	1,418.9

Table 13b Net interest paid - breakdown of calculation for the year to 31 March 2024

	31 March 2024 (£m)
Interest paid per accounts	333.6
Interest received per accounts	(190.5)
<b>Net interest paid per accounts</b>	<b>143.1</b>
Capitalised borrowing costs	159.4
Intercompany interest paid	(0.5)
Facility fees paid	10.4
<b>Net interest paid per covenant</b>	<b>312.4</b>

TWUL receives interest on its £1,249.1 million (2023: £1,249.1 million) intra-group loans to TWUHL. During the year ended 31 March 2024 interest received from TWUHL was £nil (2023: £55.7 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 effect on cash tax paid due to the receipt of any intercompany loan interest from TWUHL is also excluded from the Net Cash Flow. No corporation tax was payable during 2023/24

Following a STID Proposal in April 2015, additional Adjusted Interest Cover Ratios were introduced for depreciation to be used 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 – as used in additional conformed interest cover ratios**

Test date	31 March 2024	31 March 2025	31 March 2026
Water and wastewater depreciation	(708.5)	(720.1)	(723.8)
Factor to convert to outturn prices	1.2259	1.2770	1.3102
Depreciation (Outturn prices)	(868.5)	(919.6)	(948.3)

We confirm that in respect of the Calculation Date on 31 March 2024, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement that the ratios are as detailed in the table below.

**Table 15 The ratios – TWUL**

Test date	31 March 2024	31 March 2025	31 March 2026
Class A RAR	73.5%	81.5%	76.0%
Conformed Senior RAR	80.6%	86.6%	79.7%

Test date	31 March 2024	31 March 2025	31 March 2026
Conformed Class A ICR	5.60	4.00	4.94
Additional Conformed Class A Adjusted ICR	2.17	1.27	2.62
Additional Conformed Senior Adjusted ICR	1.76	1.03	2.01
Additional Conformed Class A Average Adjusted ICR	2.02	2.02	2.02
Additional Conformed Senior Average Adjusted ICR	1.60	1.60	1.60

We confirm that each of the above 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 (save as set out below) and has not caused Paragraph 17 (Ratios) of Part 2 (Events of Default (TWUL, TWUF and the Issuer)) of Schedule 6 (Events of Default) to the Common Terms Agreement to be breached..

## Financial Ratio Deterioration

Under the terms of paragraph 1 (Financial Ratios) of part 1 (Trigger Events) of Schedule 5 (Trigger Events) to the Common Terms Agreement and the definition of Trigger Event in the Master Definitions Agreement, a Trigger Event occurs where, among other things, any date occurs when:

- the Class A RAR for any Test Period is or is estimated to be more than 0.75:1 (paragraph 1(a));
- the Additional Conformed Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1 (paragraph 1(l)); and
- the Additional Conformed Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1 (paragraph 1(m)),

(each a "Trigger Event Ratio Level") as at the most recently occurring Calculation Date.

As at the 31 March 2024 Calculation Date:

- the Class A RAR is estimated to be more than 0.75:1 for the Test Periods ending 31 March 2025 and 31 March 2026;
- the Additional Conformed Class A Adjusted ICR is estimated to be below 1.3:1 for the Test Period ending 31 March 2025; and
- the Additional Conformed Senior Adjusted ICR is estimated to be below 1.1:1 for the Test Period ending 31 March 2025.

Given that the Class A RAR is estimated to be above the Trigger Event Ratio Level and the Additional Conformed Class A Adjusted ICR and the Additional Conformed Senior Adjusted ICR are estimated to be less than the Trigger Event Ratio Level, Trigger Events have occurred upon delivery of the 31 March 2024 Compliance Certificate.

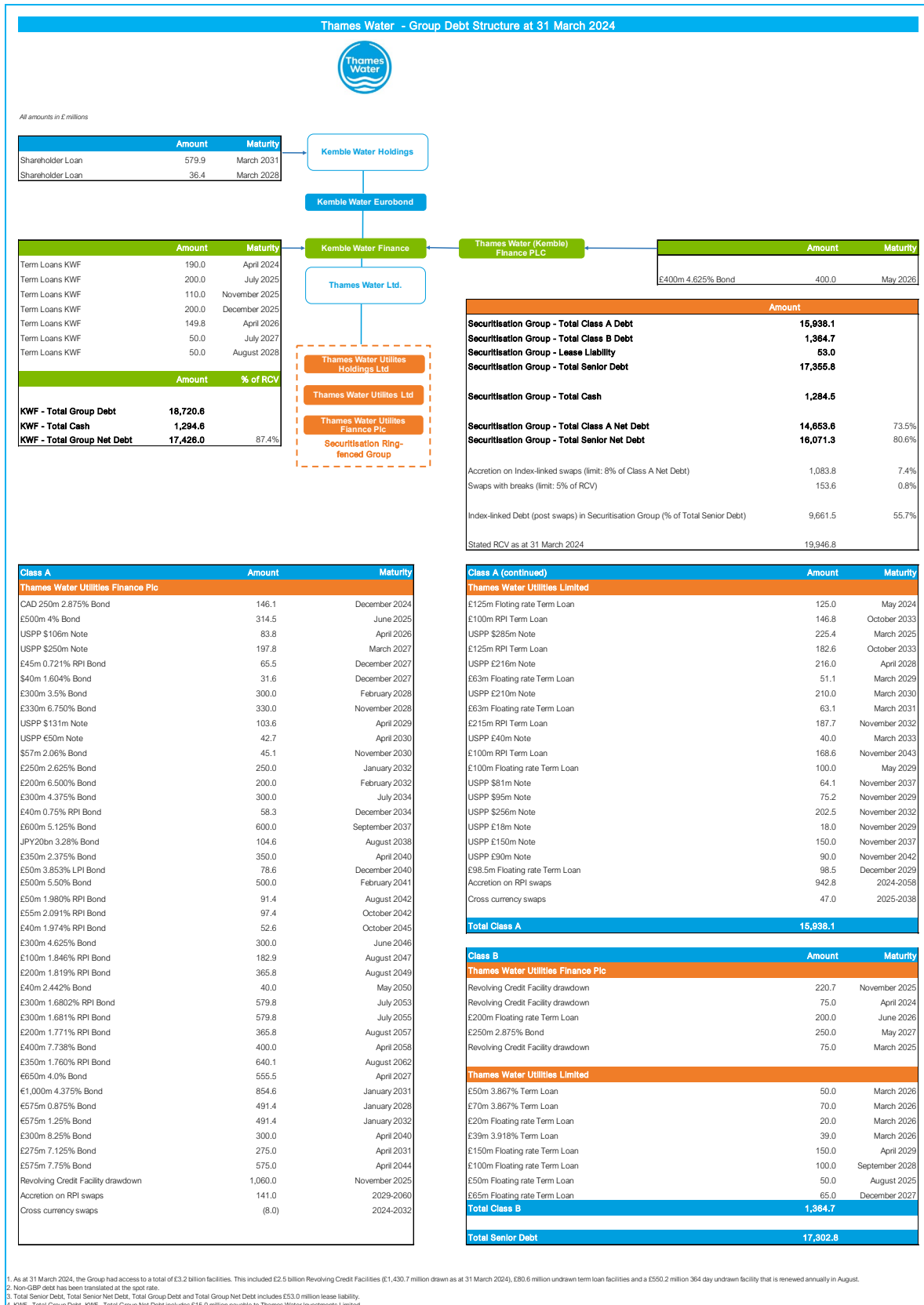
In accordance with paragraph 8(a) (Notification of Default) of part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement, the Security Trustee has been notified that the Trigger Events set out above have occurred.

In accordance with paragraph 2 (Further information and Remedial Plan) of part 2 (Trigger Event Consequences) of Schedule 5 (Trigger Events) to the Common Terms Agreement, TWUL will propose a Remedial Plan to the Security Trustee following its consideration of, and response to, Ofwat's draft determination and expects to be in a position to do so no later than 30 September 2024.

## 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 2024 the lease liability was 0.3% of RCV.

# 9. Kemble group debt structure as at 31 March 2024



We also confirm that:

- No Default or Potential Trigger Event is outstanding, save in respect of the following Trigger Events:
  - i. Additional Conformed Class A Adjusted ICR in 2024/25
  - ii. Additional Conformed Senior Adjusted ICR in 2024/25
  - iii. Class A RAR at 31 March 2025
  - iv. Class A RAR at 31 March 2026

and

- that TWUL's insurances are being maintained in accordance with the Common Terms Agreement.

Yours faithfully,

ALASTAIR COCHRAN



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Chief Financial Officer and Director  
For and on behalf of  
THAMES WATER UTILITIES LIMITED

CHRIS WESTON



-----  
Director  
For and on behalf of  
THAMES WATER UTILITIES FINANCE PLC

## Appendix 1 Financial Ratio Calculations

Calculation Date	31 March 2024	31 March 2025	31 March 2026
Class A RAR Trigger:75%	73.5%	81.5%	76.0%
Conformed Senior RAR / Senior RAR Trigger:90% Event of Default: >95%	80.6%	86.6%	79.7%

Test Period	1 April 2023 to 31 March 2024	1 April 2024 to 31 March 2025	1 April 2025 to 31 March 2026
Class A ICR	5.60	4.00	4.94
Conformed Class A ICR Event of Default: 1.6x	5.60	4.00	4.94
Class A Adjusted ICR	5.60	4.00	4.94
Conformed Class A Adjusted ICR	5.60	4.00	4.94
Additional Conformed Class A Adjusted ICR Event of Default: 1.0x Trigger:1.3x	2.17	1.27	2.62
Senior Adjusted ICR	4.54	3.25	3.80
Conformed Senior Adjusted ICR	4.54	3.25	3.80
Additional Conformed Senior Adjusted ICR Trigger: 1.1x	1.76	1.03	2.01
Class A Average Adjusted ICR	4.84	4.84	4.84
Conformed Class A Average Adjusted ICR	4.84	4.84	4.84
Additional Conformed Class A Average Adjusted ICR Trigger: 1.4x	2.02	2.02	2.02
Senior Average Adjusted ICR	3.86	3.86	3.86
Conformed Senior Average Adjusted ICR	3.86	3.86	3.86
Additional Conformed Senior Average Adjusted ICR Trigger: 1.2x	1.60	1.60	1.60

Calculation Date	31 March 2024	31 March 2025	31 March 2026
Class A Net Indebtedness divided by	14,653.6	16,536.3	17,410.3
RCV	19,946.8	20,287.0	22,897.1
Class A RAR Trigger: >75%	73.5%	81.5%	76.0%
Senior Net Indebtedness divided by	16,071.3	17,574.3	18,239.3
RCV	19,946.8	20,287.0	22,897.1
Conformed Senior RAR Event of Default: >95%	80.6%	86.6%	79.7%

Test Period	1 April 2023 to 31 March 2024	1 April 2024 to 31 March 2025	1 April 2025 to 31 March 2026
Net Cash Flow divided by	1,418.9	1,348.9	2,018.9
Class A Debt Interest	253.5	337.4	409.0
Conformed Class A ICR	5.60	4.00	4.94
Net Cash Flow less Depreciation divided by	550.4	429.3	1070.6
Class A Debt Interest	253.5	337.4	409.0
Additional Conformed Class A Adjusted ICR	2.17	1.27	2.62
Net Cash Flow less Depreciation divided by	550.4	429.3	1070.6
Senior Debt Interest	312.4	415.4	531.9
Additional Conformed Senior Adjusted ICR	1.76	1.03	2.01
Year 1	2.17	1.27	2.62
Year 2	1.27	2.62	2.17
Year 3	2.62	2.17	1.27
Additional Conformed Class A Average Adjusted ICR	2.02	2.02	2.02



Test Period	1 April 2023 to 31 March 2024	1 April 2024 to 31 March 2025	1 April 2025 to 31 March 2026
Year 1	1.76	1.03	2.01
Year 2	1.03	2.01	1.76
Year 3	2.01	1.76	1.03
Additional Conformed Senior Average Adjusted ICR	1.60	1.60	1.60

## Appendix 2 PMICR covenant information sheet

<b>(Additional Conformed) Senior PMICR Information template</b>		
<b>FD RCV run off</b>		<b>2024/25</b>
Water resources RCV depreciation	2017/18 CPIH prices	20.3
Water network+ RCV depreciation	2017/18 CPIH prices	312.4
Wastewater network+ RCV depreciation	2017/18 CPIH prices	299.3
Bioresources RCV depreciation	2017/18 CPIH prices	88.1
TTT RCV depreciation	2017/18 CPIH prices	0.0
Total RCV depreciation	2017/18 CPIH prices	720.1
Total RCV depreciation	Outturn prices	919.6
<b>FD Wholesale totex</b>		<b>2024/25</b>
Allowed Totex for PAYG (water resources) (excludes pension deficit repair)	2017/18 CPIH prices	94.3
Allowed Totex for PAYG (water network+) (excludes pension deficit repair)	2017/18 CPIH prices	778.9
Allowed Totex for PAYG (wastewater network+) (excludes pension deficit repair)	2017/18 CPIH prices	662.8
Allowed Totex for PAYG (bioresources) (excludes pension deficit repair)	2017/18 CPIH prices	103.4
Allowed Totex for PAYG (TTT) (excludes pension deficit repair)	2017/18 CPIH prices	(216.7)
Total FD Allowed Totex for PAYG (excludes pension deficit repair)	2017/18 CPIH prices	1,422.6
Water resources pension deficit repair allowance (treated as fast money)	2017/18 CPIH prices	–
Water network+ pension deficit repair allowance (treated as fast money)	2017/18 CPIH prices	–
Wastewater network+ pension deficit repair allowance (treated as fast money)	2017/18 CPIH prices	–
Bioresources pension deficit repair allowance (treated as fast money)	2017/18 CPIH prices	–
TTT pension deficit repair allowance (treated as fast money)	2017/18 CPIH prices	–
Total FD Allowed pension deficit repair	2017/18 CPIH prices	–
Total FD Allowed Totex including pension deficit repair	2017/18 CPIH prices	1,422.6
<b>FD Allowed fast money excl pension deficit repair</b>		
Allowed fast money excl pension deficit repair water resources		68.1%
Allowed fast money excl pension deficit repair water network+		46.2%
Allowed fast money excl pension deficit repair wastewater network+		52.0%
Allowed fast money excl pension deficit repair bioresources		42.9%
Allowed fast money excl pension deficit repair TTT		-0.6%
<b>FD fast money excluding pension deficit repair</b>		
Allowed fast money excl pension deficit repair water resources	2017/18 CPIH prices	64.3
Allowed fast money excl pension deficit repair water network+	2017/18 CPIH prices	360.1
Allowed fast money excl pension deficit repair wastewater network+	2017/18 CPIH prices	344.7
Allowed fast money excl pension deficit repair bioresources	2017/18 CPIH prices	44.3
Allowed fast money excl pension deficit repair TTT	2017/18 CPIH prices	1.4
Total allowed fast money excl pension deficit repair	2017/18 CPIH prices	814.8
Total allowed fast money excl pension deficit repair	Outturn prices	1,040.5
<b>FD slow money</b>		
Allowed slow money water resources	2017/18 CPIH prices	30.0
Allowed slow money water network+	2017/18 CPIH prices	418.8
Allowed slow money wastewater network+	2017/18 CPIH prices	318.1
Allowed slow money bioresources	2017/18 CPIH prices	59.1
Allowed slow money TTT	2017/18 CPIH prices	(218.1)
Total allowed slow money	2017/18 CPIH prices	607.8
Total allowed slow money	Outturn prices	776.2
Total fast + slow money	Outturn prices	1,816.7
<b>Comparison FD wholesale allowances vs actual wholesale spend</b>		<b>2024/25</b>
FD allowed fast money excl pension deficit repair	Outturn prices	1,040.5
FD allowed slow money	Outturn prices	776.2
FD fast + slow money excl pension deficit repair	Outturn prices	1,816.7
Actual wholesale opex, (excluding pension deficit repair)	Outturn prices	1,344.9
Actual wholesale capex	Outturn prices	1,923.9
Actual opex + capex	Outturn prices	3,268.8
Actual opex minus FD fast money	Outturn prices	304.4
Actual capex minus FD slow money	Outturn prices	1,147.7
Actual opex + capex minus FD fast + slow money	Outturn prices	1,452.1
<b>Inflation data</b>		
CPIH to convert from 2017/18 to outturn		1.2770

## Appendix 3 Thames Tideway Tunnel

During the 12-month period ended 31 March 2024, TWUL continued to include costs within its bills to wastewater customers for the construction of the Thames Tideway Tunnel (TTT). £116.8 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, TWUL's 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.

We are entering a critical phase with the start of System Commissioning after eight years of construction. This process will prove the effectiveness of the London Tideway Tunnels System for wastewater transfer and storage. The first step, connecting the new Tideway Tunnels to the existing Lee Tunnel by removing the Shaft F Wall at Abbey Mills, required temporarily taking the Lee Tunnel out of operation. Despite the risk of sewer overflow during storms, extensive efforts ensured the work was completed safely within a two-week window before summer.

The connection works were successfully completed on 13 May 2024, following the Preliminary Commissioning Commencement Date (PCCD) on 30 April 2024. The Lee Tunnel was brought back into service without environmental impact, marking substantial progress toward full System Commissioning. The commissioning process will continue with activation of the new Combined Sewer Overflows (CSO) being activated during the summer with storm testing due to commence in the autumn. The project is on track to efficiently intercept and manage wastewater, with ongoing efforts to complete remaining tasks promptly and safely. The team's dedication is driving TWUL closer to its goal of significantly improving the River Thames' environmental health for London.

## Contact details

For more details, please contact:

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