Our finances explained

October 2022

Financing life's essential service

Alastair Cochran
Chief Financial Officer

I joined as Chief Financial Officer in September 2021 and I've enjoyed working together with colleagues across Thames Water laying the foundations to deliver a turnaround in performance for the benefit of customers, communities and the environment. Managing our finances in a way that is sustainable and keeps costs as low as possible for our customers is really important, and we know the way we do things can sometimes appear complex.

This Our Finances Explained booklet, our sixth annual edition, is designed to explain our finances and answer some of the questions you might have. It's all part of our commitment to keeping you informed all along the way.

Contents

Delivering our turnaround plan

This is a critical time in our corporate history. We know we've not been delivering the performance our customers and stakeholders rightly expect, which is why we launched our turnaround plan last year. It's focused on fixing the basics, raising the bar and shaping the future. 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. You can find more about the plan and our achievements in the first year here.

Our turnaround plan is going to be a long and challenging journey spanning eight years, so managing our finances efficiently is crucial. Every pound we spend needs to support our turnaround and have a positive impact on our customers, stakeholders, communities and the environment. Being socially responsible is of critical importance throughout this journey, and it's something that will inform every decision we make and how we deliver life's essential service, so our customers, communities and the environment can thrive.

A challenging year

This year has been another challenging period for Thames Water, our customers and our communities. Climate change, high energy prices and rising inflation are all having a significant impact on your and our finances. And, of course, we're still feeling the residual effects of the Covid-19 pandemic. Throughout this period, our priority has remained keeping our essential services running and to support our customers.

We know many of our customers are increasingly finding themselves in difficult financial situations as the cost of living has risen. We are helping them through social tariffs, a flexible payment plan, our customer assistance fund and with debt advice supported by our Independent Trust Fund. You can read more on page 5 of this document, and in our Annual Report and Sustainability Report.

Supportive shareholders

In June 2022, we announced a revised £11.5 billion business plan for the current 2020-25 regulatory period, unanimously approved by our shareholders, which is designed to significantly improve Thames Water's operational performance, deliver on its regulatory obligations, increase resilience and deliver better outcomes for its customers, communities and the environment. This represents a £2 billion increase in expenditure, compared to the £9.6 billion agreed by Ofwat, our economic regulator, when it set the prices we can charge for the period between 1 April 2020 to 31 March 2025.

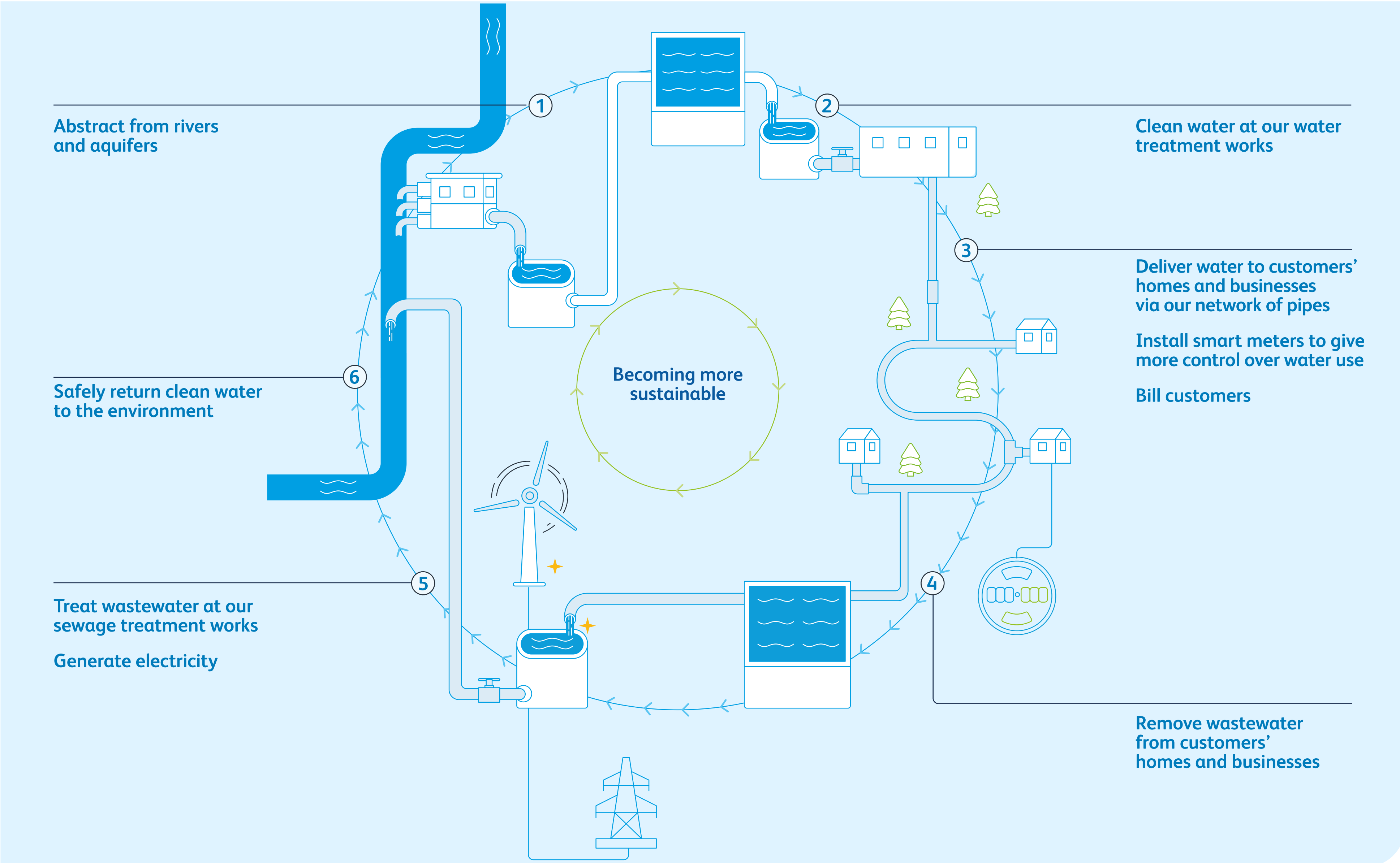
To support delivery of this new business plan, an initial £500 million of new equity will be subscribed by shareholders in March 2023. The Executive team is working with shareholders on plans to provide a further equity funding to drive Thames Water's turnaround over the remainder of the current regulatory period and establish a solid foundation for Thames Water's long term growth.

We are fortunate to have shareholders that have consistently supported Thames Water by approving substantial investment in the business over and above regulatory allowances, whilst taking no dividends out of it. For the fifth year in succession, our shareholders did not receive an external dividend as we prioritised the critical investment we need to make in our systems and assets to improve resilience for the benefit of our customers, communities and the environment.

We'd love to hear from you, so please drop us a note at ourfinances@thameswater.co.uk if you have feedback on this booklet.

Our water cycle

As the biggest water company in the UK, we look after over 15 million customers in the South East of England. We're here to provide clean, fresh drinking water and recycle their waste.



Where we spend our money

How we generate our revenue

Our revenue comes from the bills we send our customers for the essential water and wastewater services we provide. Our current average annual combined household bill is £423 per year. You can read more about how we keep our bills fair on page 5.

The water industry works in five-year regulatory periods, otherwise known as Asset Management Plan (AMP) periods. Every five years we agree our business plan with Ofwat, our economic regulator. This is based on extensive planning and customer research.

As part of that process, we set the performance commitments for the next five years as well as the prices we can charge our customers. Our most recent price review concluded in 2019/20, when we received our final determination from Ofwat for 2020 to 2025.

For some of our performance commitments we can earn financial rewards if we perform above expectations, but we can also incur penalties for underperformance. For more information, see our Annual Performance Report.

Where we spent our money in 2021/22

(All numbers based on underlying cash flow)

Net investment in our network*

£1,343 million

This is the money we use to renew and improve our network and infrastructure. We've invested over £16 billion during the last 16 years and we're currently investing triple the amount per year that we did in the five years before privatisation.

Net financing costs and dividends

£194 million

We borrow money from banks and other lenders, such as pension funds and insurance companies, to help fund investment in our network. We keep customer bills low by borrowing debt on the most favourable terms possible and spreading the repayment costs over a longer period. We also pay a dividend to our holding companies to fund their debt obligations and working capital requirements.

Our external shareholders have not been paid a dividend for the last five years. The only dividends paid during that period have been to fund interest payments on debt and other group related costs.

Day-to-day operational expenses

£901 million

This is the money we use to operate and maintain our network, pay our employees, cover our energy costs and pay for the technology we need. Due to our vast network of water pipes, sewers and treatment works, we need to manage this money carefully to keep our business running efficiently and provide the best possible service for our customers.

* This includes capitalised interest of £115.3 million

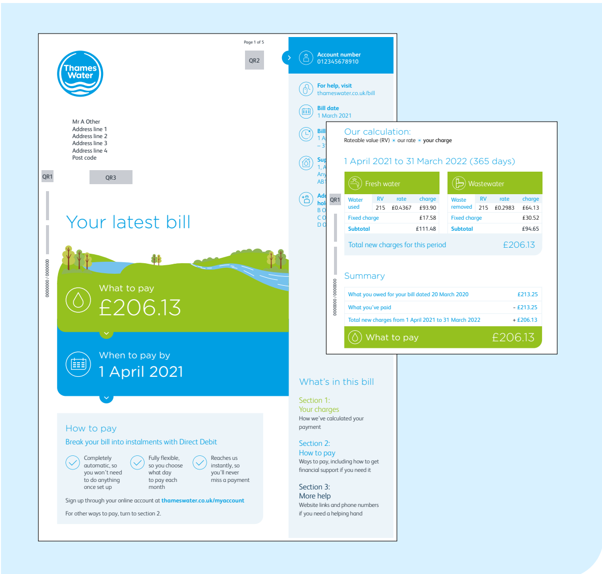
Supporting customers

Many of our customers have had a very tough couple of years as they deal with the lingering impacts of Covid-19 and rising energy prices and household costs. And it's going to get harder in 2022/23, with high inflation and significant increases in utility bills. However, water bills have increased by only 3.4% since last year, in line with our agreed price review.

We offer a range of options to help our customers in financially vulnerable circumstances. Over 267,000 customers are now on our social tariffs (210,000 as at 31 March 2021), and over 280,000 households are now signed up to our priority services register (197,000 as at 31 March 2021). We provided £46 million in support through discounts to bills in 2021/22.

Our customer assistance fund, which supports customers with water debt, helped more than 5,000 customers in 2021/22. We also offer a range of payment plan options, free meter fitting and water efficiency devices to help our customers.

We understand customers in water debt may also have wider financial issues, so we can also help with basic living costs outside our services, through a dedicated independent trust fund, set up in 2009. We invested over £580,000 in the fund in 2021/22.



Simple, affordable bills

It's important our bills are affordable but also allow us to meet our commitments. We achieve this balance by:

- Continually evaluating what we need to do to improve our services to customers, and undertaking research to understand the future impact of things like climate change and population growth on our network
- Talking to our customers about what they value most from Thames Water and what they're willing to pay for
- Being challenged independently by representative bodies, such as our Customer Challenge Group (CCG)

We also keep our bills low through:

- Operating our network as efficiently as possible to reduce unnecessary costs
- Borrowing money in competitive markets to minimise the cost of our debt
- Using the Government's capital allowances scheme to keep our corporation tax bills lower than they'd otherwise be (see more on page 14).

Last year, we responded to customer feedback by designing and rolling out a new look bill, with simpler language and clearer explanations of how our charges work. The new bill provides more straightforward calculations (including the reason for any increases), simpler payment information and better signposting to self-service options to pay. This helped us to reduce the number of calls we receive about billing by over 25%, from 2.1 million in 2020/21 to 1.5 million in 2021/22.

Green financing

Becoming more sustainable

Our commitment to becoming more sustainable extends to how we run our finances. In March 2018, in line with the International Capital Market Association Green Bond Principles, we established our first Green Bond Framework to support the financing of our water and wastewater recycling projects. Debt raised under this framework has been used to refinance major 'green' projects including the upgrade of Deephams Sewage Treatment Works, our metering programme and the rehabilitation of water mains.

In 2018, we also agreed to tie the interest rate on our £1.65 billion 5-year Revolving Credit Facility (RCF) to our annual performance against Environmental, Social and Governance (ESG) metrics for the first time. We committed that any outperformance would be donated to charitable causes and any underperformance would be borne by our external shareholders.

In 2021, we updated our Green Bond Framework into a Sustainable Financing Framework. This provides us with greater flexibility to issue bonds for eligible green or social projects, such as sustainable drainage systems, biodiversity enhancement, renewable energy projects and solutions to reduce flooding. You can find more information about what types of projects are eligible on our website.

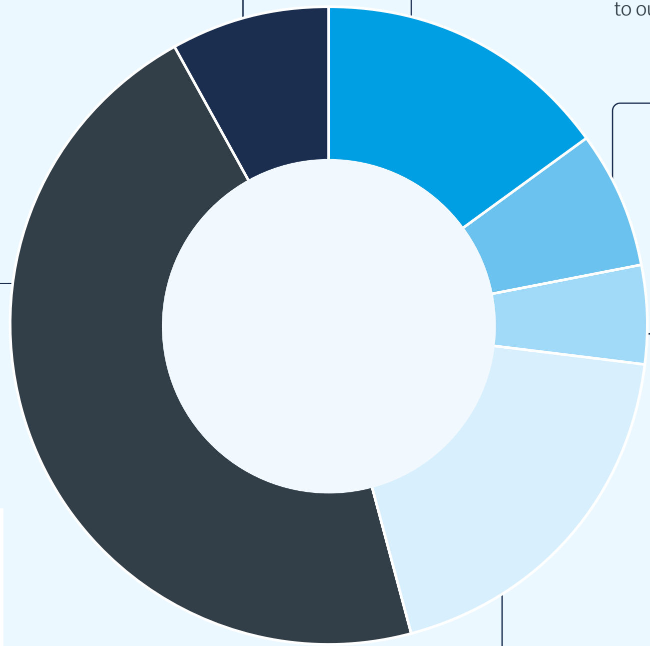
We used the framework to issue €1,150 million of Green Bonds in January 2022. Over 10% of our current debt has been used to finance projects where we report on the direct environmental impacts.

To measure our performance, we use the Infrastructure Global Real Estate Sustainability Benchmark (GRESB) assessment. GRESB is an independent external benchmark that assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide across a range of ESG metrics. Last year we scored 87/100, in line with our score for the prior three years.

We published our first Environment, Social and Governance statement in October 2018 to increase the accessibility of information and give a balanced view of performance against key ESG measures over three years. Our fifth ESG statement can be found on our website with our Sustainability Report 2021/22

How we spend every £1[1]

We provide water and wastewater services for an average of just over £1 per day per household.



8p

Lenders

By borrowing money at efficient rates, we're able to continue investing heavily in our infrastructure while keeping customer bills as low as we can [2]

15p

People

To pay our people, including pensions, and other benefits, so we're able to deliver essential services to our customers and protect the environment

7p

Energy to power operations

To keep this cost down, we're increasing the amount of electricity we self-generate and we enter forward contracts to buy energy in the future at a predetermined price per unit

46p

Investment in our infrastructure

To increase the long-term resilience of our services, enabling us to respond to the challenging external environment in which we operate

5p

Government

We paid over £88 million in business rates in 2021/22. We're not currently paying corporation tax, mainly due to tax deductions for interest payments on our debt and because we're investing heavily in our infrastructure. We receive tax relief under the Government's capital allowances scheme. We pay employment taxes in relation to our people costs.

19p

Operational expenditure

To operate and maintain our network and improve our customer service

Powering our sites

Our power costs were over £176 million last year, making it our second biggest single cost. It's one of the reasons we're continuing to increase the amount of electricity we self-generate.

During 2021/22, we produced 24% of our own renewable electricity (the equivalent of £35 million). As well as producing energy from sewage, we also use solar and wind power.

1 The above table is derived from the underlying financial figures included within the cashflow statement. The net cash flows excludes new loans raised, repayment of borrowings, repayment of lease principal and derivative paydowns.

2 For the fifth year in a row, we paid no dividends to our external shareholders. During the year, we distributed £37.1 million to Thames Water Utilities Holdings Limited ("TWUHL"), our immediate parent company, to service debt obligations and group related costs of other companies within the wider Kemble Water Group. These cashflows are therefore included with the 'Lenders' segment of the chart.

Investing in our region

Investing for customers

Over the last 16 years we've invested over £16 billion, as part of our significant investment programme to increase the resilience of our systems and assets. Some of our key areas of spend during 2021/22 were:

- £408 million in large scale capital investments across our water network and water production, including £201 million investment to reduce leakage and to improve our trunk main network, £57 million water network improvements and £150 million across our water treatment works
- £65 million on our metering programme; we've now installed 700,000 smart meters, after installing around 175,000 in 2021/22
- £443 million investment across our waste business, including £143 million on waste network, £267 million on sewage treatment works and £33 million on Thames Tideway Tunnel
- £280 million on a range of other investment across the business, including £111 million on new service connections through our developer services unit, £74 million digital investment, improving our business infrastructure and customer platforms and a number of various initiatives across the business to support business performance

Thames Tideway Tunnel

The Thames Tideway Tunnel will be a 25km long sewer which diverts millions of tonnes of sewage away from the River Thames.

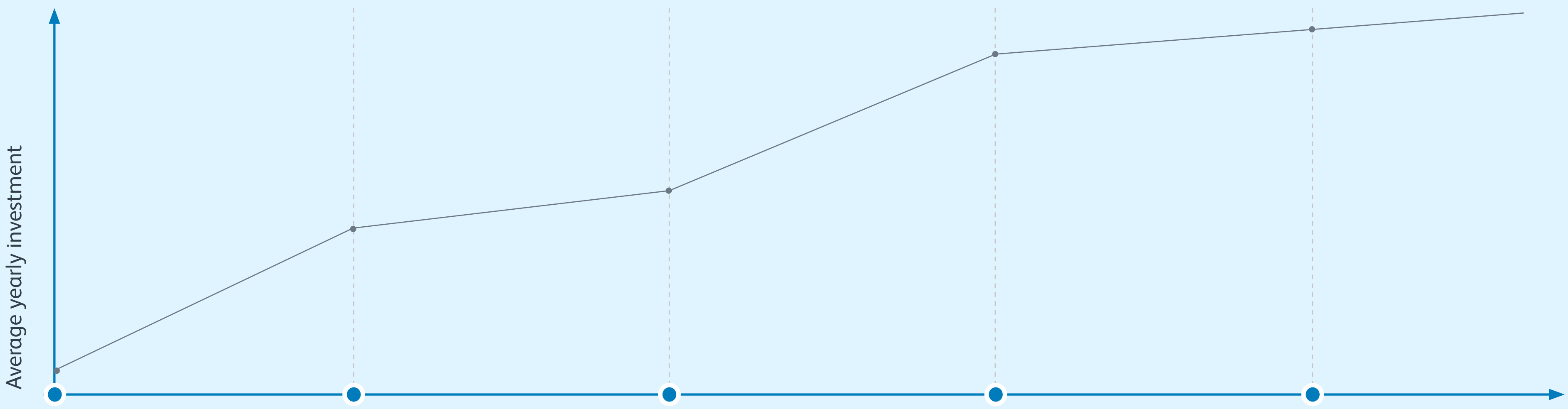
An independent company, Bazalgette Tunnel Limited (BTL), is constructing the tunnel. BTL is known to the public as 'Tideway', and it operates under a licence from Ofwat as a separate regulated utility business.

During 2021/22, we, spent over £33 million as part of our work to connect our existing network to the landmark new tunnel, which will be in operation later this decade and will transform the health of the River Thames in London.

As part of the money isn't retained by us, we present amounts relating to BTL separately in our financial statements.

Our investment history

Average yearly investment in 2021/22 prices



Five years prior to privatisation	1989 – 2001	2001 – 2006	2006 – 2017	2017 – present
£392 million	£704 million	£802 million*	£1.262 billion	£1.302 billion

Five years prior to privatisation

£392 million

The water industry was privatised in 1989

1989 – 2001

£704 million

Post-privatisation – rebuilding infrastructure as Thames Water plc (floated on the London Stock Exchange)

One of the key reasons the industry was privatised was to address the many years of underinvestment in water and wastewater infrastructure during public ownership. During this period, we constructed the Thames Water ring main and upgraded our major treatment works in London.

2001 – 2006

£802 million*

International expansion as part of RWE

After the German utility company, RWE, acquired Thames Water, we accelerated the rate of our international expansion. As part of this, we purchased the US's largest privately owned water company, American Water Works.

2006 – 2017

£1.262 billion

Focusing on the UK as part of the Kemble Group

After the Kemble Group, made up of national and international investors, bought Thames Water in 2006, all of our global interests were sold or closed. This allowed us to focus our attention on the UK.

2017 – present

£1.302 billion

Current ownership

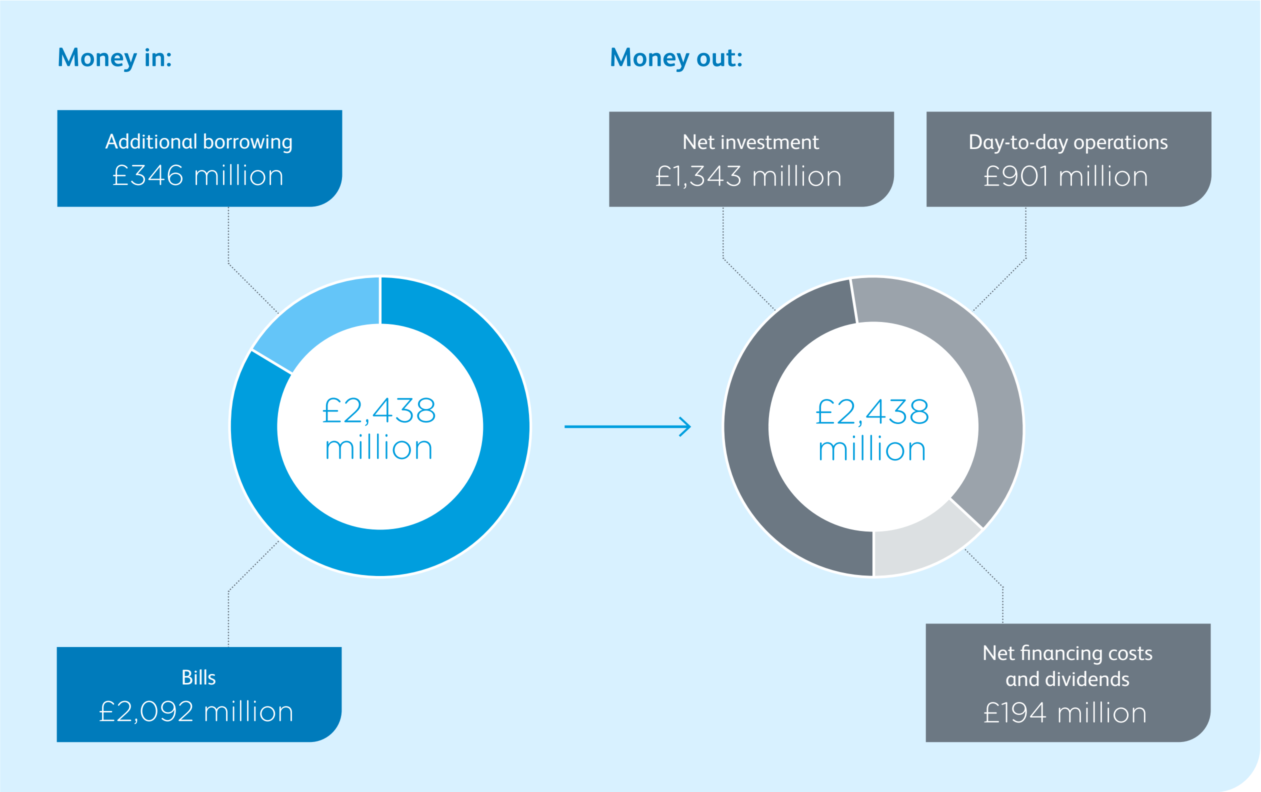
Since 2017, new investors OMERS, and USS have, in aggregate, acquired over 51 % of Thames Water. Our external shareholders have agreed not to take dividends since 2017 in order to focus on improving performance for our customers.

*Investment in UK business.

All figures are inflated into 2021/22 prices using RPI

Financing our spending

In addition to the money we collect from bills, we need additional funding to finance our spending (page 7). To bridge this gap and avoid significant fluctuations to bills, we borrow money at attractive rates. By spreading the cost of our investment and managing our debt over a number of years, we also ensure the generations that will benefit from the improvements are the ones that will help pay for them, making our bills fairer and more sustainable.



Our borrowings

We borrow money through a combination of loans, from banks and institutions, and corporate bonds. Our corporate bonds are typical debt 'instruments', consistent with the way many large UK companies raise funding. They're sold to third-party investors such as pension fund managers and insurance companies, and, as with any other loan, we pay interest on these bonds. Most of our bonds are publicly listed on major stock exchanges, such as the London Stock Exchange and Irish Stock Exchange. While the majority of our funding requirement is in sterling, we also monitor investor demand in other currencies to optimise our average cost of funding.

Our credit rating

The responsible way we operate our finances ensures we maintain investment grade credit ratings, as assigned by external ratings agencies Moody's and Standard & Poor's (S&P). The ongoing assessment of Thames Water by these two agencies provides an independent view of our performance and future outlook. The majority of our debt is rated Baa2 by Moody's (stable outlook) and BBB by S&P (stable outlook), allowing us to continue to raise funding at competitive rates, which, in turn, allows us to keep costs down for customers.

Interest on our debt

The water industry has traditionally been considered low risk, making it a particularly attractive investment for pension funds and other similar financial institutions that seek long-term, steady returns. We maintain relatively long-dated debt maturities (currently with an average tenor of approximately 13 years) to minimise refinancing risks. The average interest rate we incurred during 2021/22 was 6.63%, and we paid net interest of £273.6 million on our debt (of which £115.3 million was capitalised).

Managing financial risk

As with any company, our normal business activities expose us to a variety of financial risks, including changes to inflation and interest rates. By borrowing money from different sources, on different interest payment bases and for varying lengths of time, we're able to proactively manage and spread these risks, reducing them to an acceptable level. As we're a regulated water company, our customers' bills are linked to movements in inflation, which increases or decreases the amount of money we have available to pay for the interest on our debt. Because of that, we've also linked slightly more than half our debt interest to inflation. Most of the remaining debt is borrowed at fixed rates of interest, sometimes for many years, which helps provide certainty and maintains stable borrowing charges relative to changes in revenue.

Our gearing

We're financed by a combination of debt from our lenders and shareholder equity. After deducting cash and other cash-like assets, the amount we've borrowed from lenders is referred to as our net debt.

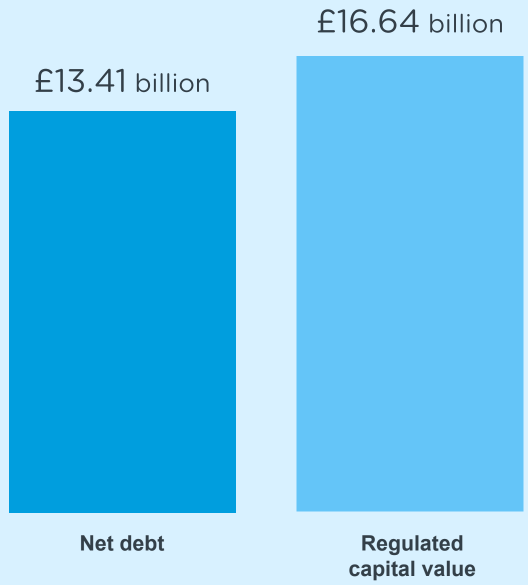
Our financial gearing is calculated as the ratio between our net debt and our regulatory capital value (RCV), which represents the value of our assets as agreed with Ofwat. This relationship – our 'gearing ratio' – shows the extent to which our operations are funded by our debt investors, rather than by shareholders.

On 31 March 2022, our net debt (covenant basis) was £13.41 billion and our RCV was £16.64 billion, meaning our gearing ratio was 80.6%.

You could consider this similar to funding the purchase of a house with a mortgage, where the loan-to-value ratio is the value of debt (mortgage) relative to the value of the house. Our lenders require the Group to operate within certain financial metrics, including a maximum gearing level. The covenant net debt figure used in these calculations was £13.41 billion, which is slightly higher than the £12.94 billion statutory net debt shown in our 2021/22 accounts, due to required adjustments under the covenant calculations.

Gearing ratio calculation:

$$80.6\% \text{ Gearing} = \frac{£13.41 \text{ billion (net debt)}}{£16.64 \text{ billion value (Regulated capital value)}}$$

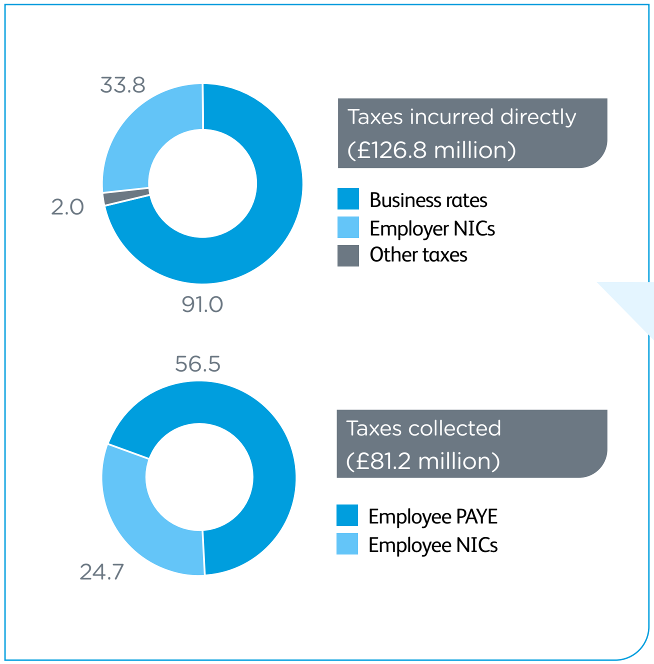


Our taxes explained

Tax transparency is a cornerstone in building trust with our customers and other stakeholders. In 2021/22 we paid £218 million in business rates, PAYE, National Insurance Contributions, and other taxes. This helped fund the vital public services we all rely on. We incurred £127 million directly, mainly through business rates, and collected and paid £81 million on behalf of our employees. In addition we incurred £10 million indirectly, mainly through a climate change levy and landfill taxes.

We manage our taxes appropriately and efficiently, within both the letter and the spirit of tax legislation, for the benefit of our customers, shareholders and our local communities. Our tax strategy and policy can be found as a standalone document on our website here.

Our tax position 2021/22

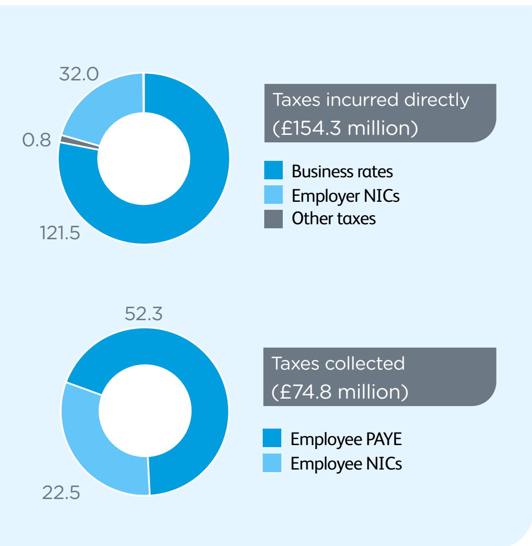


Preventing tax evasion

The Corporate Criminal Offence of the Failure to Prevent the Facilitation of Tax Evasion rules require companies to have procedures in place to prevent the facilitation of tax evasion. We take this responsibility very seriously. It's reflected in our policies, which include:

- Applying a zero-tolerance attitude towards the facilitation of tax evasion and reporting any instances to the authorities.
- Having prevention procedures in place, including obtaining assurances from suppliers, training our employees, providing a whistle-blowing hotline, and reviewing our processes regularly.
- Only using suppliers who can provide assurance they have adequate prevention procedures.

Our tax position 2020/21



Our tax strategy

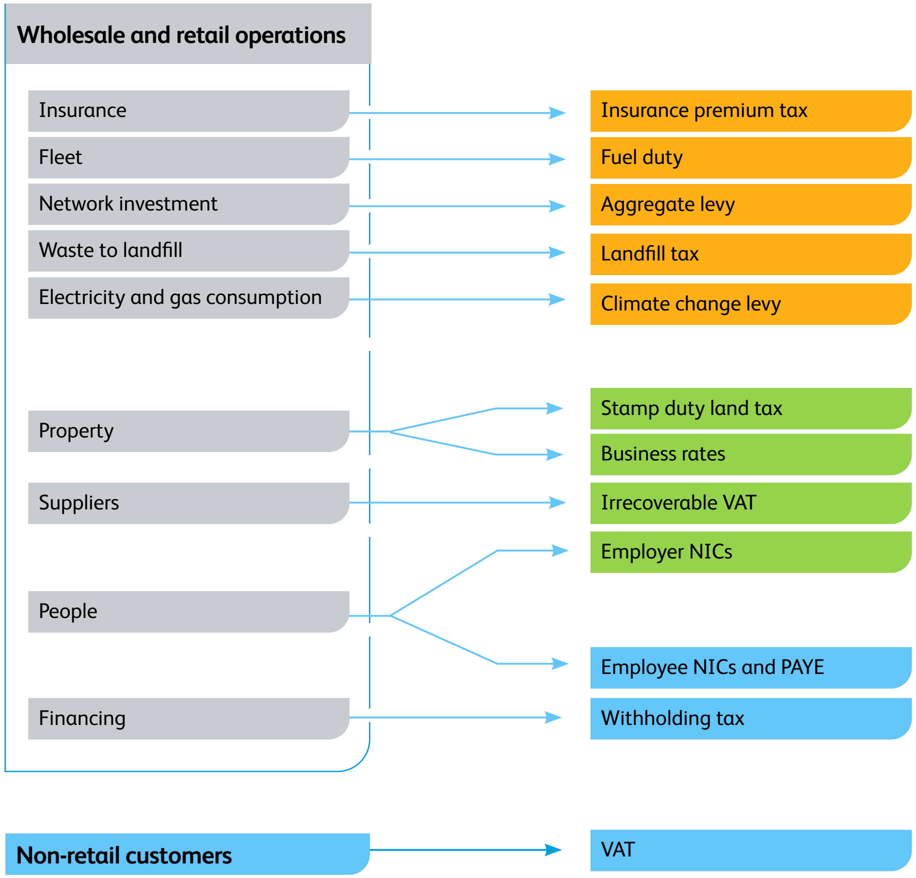
Our tax strategy is straightforward and underpinned by five key principles to ensure we're a responsible business. It applies to all our Group entities. Our principles are:

- We comply with all tax legislation at all times, both within the letter and spirit of the law.
- We do not use tax avoidance schemes or aggressive tax planning.
- We engage fully and transparently with HMRC and other Government bodies and seek to resolve disputes in a co-operative manner.
- We adopt a conservative approach to tax risk management and apply a strong tax governance framework.
- We accept only a low level of risk in relation to taxation.

In March 2022, HMRC reconfirmed our classification as 'low risk'. We work hard to maintain this coveted status. Our tax strategy ensures our behaviour is consistent with, and contributes towards, maintaining this status.

Our tax breakdown

This illustration shows the areas in our value chain where we incur and collect taxes.



Tax incurred indirectly

Taxes incurred indirectly are taxes that represent a cost to us, but are included in the costs our suppliers and contractors charge us. Therefore, we do not pay these directly to the Government, but incur them indirectly as a consequence of our activities.

Tax incurred directly

Taxes incurred directly are taxes that represent a cost to us, are accounted for in our financial statements, and are paid directly to the UK Government by us.

Tax collected for HMRC

Taxes collected by us are tax costs of another party that we collect on their, or the Government's, behalf. These costs do not affect our financial results. As we undertake commercial activity, it generates the tax that contributes to the economy.

Tax descriptions

While we incur and collect all of the following taxes, only the largest amounts are shown on page 12.

- **Insurance Premium Tax (IPT):**
  A tax levied on insurance premiums.
- **Fuel Duty**
  A duty on petrol, diesel and fuel used in vehicles.
- **Aggregate Levy**
  A tax on the extraction of rock, gravel and sand.
- **Landfill Tax**
  A tax on waste sent to landfill.
- **Climate Change Levy**
  A tax on the industrial or commercial use of electricity, gas and solid fuels.
- **Stamp Duty Land Tax**
  A tax on the purchase of land and property.
- **Business Rates**
  A tax on non-domestic properties we own or occupy.
- **VAT**
  A tax levied on the sale of goods and services.
- **National Insurance Contributions (NIC)**
  A tax on wages incurred by employers and employees.
- **PAYE**
  Pay As You Earn income tax is incurred by employees on their wages. It's deducted by employers and paid to Her Majesty's Revenue & Customs (HMRC).
- **Withholding Tax**
  A tax on interest payments on some loans from overseas lenders.

Our corporation tax

For many years, the UK Government has allowed companies to claim tax relief on capital investment in their UK operations – these 'capital allowances' are a common feature of national tax regimes across the world. The UK Government also provides tax relief for interest costs on debt that's been raised to fund investment.

Due to our significant capital investment programme and interest costs on our debt, we don't currently pay corporation tax. Our interest costs are deductible for tax purposes and are substantial at the moment. The Government's capital allowances regime results in tax relief on capital expenditure which is generally quicker than the rate of accounting depreciation on that expenditure. This allows us to delay payment of corporation tax (creating a 'deferred tax' liability) until our level of investment is lower. Thames Water Utilities Limited's deferred tax liability on fixed assets was £1.5 billion at 31 March 2022.

You can find our 2021/22 draft corporation tax calculation for Thames Water Utilities Limited and its subsidiary, Thames Water Utilities Finance plc, in the table to the right. The cost reduction created by our not paying corporation tax is entirely passed on to customers, through lower bills, so our customers benefit fully from us not paying corporation tax.

If our investment levels were to reduce, our customers would be negatively impacted as our capital allowances claims would also reduce. This would lead to an increase in our taxable profits, and at some point we would start paying corporation tax. Although tax we pay would be funded through customer bills, any increase in bills to cover our corporation tax charge would be offset, to a degree, by a bill reduction due to lower investment costs. If and when the tax which has been deferred becomes payable, the long lifespan of our assets would protect customers from a sudden bill increase.

It's difficult to reliably estimate when the Group as a whole will pay corporation tax. It depends on a number of factors:

- our profitability, which is influenced by our performance
- the regulatory return and level of debt
- our level of capital investment, which gives rise to capital allowances
- tax legislation and accounting changes.

Although the plan we submitted to Ofwat for 2020 to 2025 requested funding to cover tax costs in our operating company, Thames Water Utilities Limited, the Group as a whole may not pay corporation tax because of losses in other Group companies.

Group operations

All the Group's operational activities take place in the UK. Historically, the Group traded in overseas countries as well and had a number of legacy entities incorporated overseas. However, as part of our commitment to simplify our structure, we've now closed or disposed of all of these overseas legacy entities except for one incorporated in Singapore which remains dormant.

Our draft corporation tax calculation 2021/22

This draft corporation tax calculation is for Thames Water Utilities Limited and its subsidiary, Thames Water Utilities Finance plc, for 2021/22.

A company's UK corporation tax liability is based on its accounting profit or loss before tax, as shown in its statutory accounts. Tax adjustments must be made to that accounting profit or loss, and the resulting 'taxable profits' are multiplied by the corporation tax rate, which was 19% in 2021/22.

	£m
Loss before tax* per statutory accounts	**(850.8)**
Deduct:	
1 Capital allowances	(225.7)
2 Interest costs included within fixed assets	(115.3)
3 Group relief	(66.0)
4 Non-taxable income	(28.1)
5 Pension contributions	(20.1)
Add back:	
6 Depreciation of infrastructure and other assets	679.3
7 Fair value losses on derivatives	583.3
8 Disallowable costs	43.4
Taxable profits	**Nil**

*Already included in loss before tax are tax deductible interest costs on debt of £384 million and tax deductible losses on derivatives of £312 million.

Tax deductions

1. **Capital allowances**
   Companies can claim a deduction for investment in critical infrastructure.
2. **Interest costs included within fixed assets**
   Interest costs on certain long term construction projects are recognised as fixed assets, rather than expensed in the income statement, but are allowable for tax.
3. **Group relief**
   Tax losses generated from interest expenses in our holding companies can be transferred to Thames Water Utilities Limited and its subsidiary under 'group relief' rules. Broadly speaking, these rules ensure that corporation tax is payable on any net taxable profits of the whole Group.
4. **Non-taxable income**
   This is primarily income for new service connections to our network, which is taxed by reducing capital allowances instead.
5. **Pension contributions**
   Pension contributions paid that are more than the cost in the income statement are deductible.

Tax add backs

6. **Depreciation of infrastructure and other assets**
   Depreciation is added back, as capital allowances are deducted instead.
7. **Fair value losses on derivatives**
   Gains or losses on derivatives (e.g. interest rate swaps) are taxed or deducted based on their cash flows rather than accounting profits or losses.
8. **Disallowable costs**
   e.g. fines included in operating expenses.

Our people

Pensions

Until the end of 2020/21, we ran three pension schemes to support our employees during retirement: two defined benefit schemes, and one defined contribution scheme.

Both defined benefit schemes are closed to new employees. Following a formal consultation with the joint trade unions and pension scheme representatives, Thames Water Pension Scheme, the larger of the two defined benefit schemes, was closed to future accrual as of 31 March 2021. This will ensure that we continue to provide a competitive, valued pension benefit at an affordable cost.

The assets of our defined benefit schemes, which support our ability to pay pensions, are held separately from those of any Thames Water Group company. Both the value of these assets and our pension obligations – the amount we need to pay retired employees – are affected by interest rate fluctuations and other external market factors.

Every three years, an independent actuary values our defined benefit schemes. And these valuations are updated biannually for accounting purposes.

Like many large companies, current market factors mean our defined benefit pension obligations are large relative to the value of the scheme assets. At 31 March 2022, one of the two defined benefit schemes had a net deficit (where the value of the obligations is greater than the value of the assets) and one had a net surplus. Overall our net deficit at 31 March 2022 was £245 million.

In 2021/22, we paid £6 million of regular contributions into our defined benefit pension schemes. During 2020/21, we paid £117 million into our defined benefit pension schemes, which included regular contributions and an once-off upfront payment of £70 million. This covers the remaining deficit payments agreed for the 2020-2025 regulatory period. This is part of our recovery plan to sustainably reduce our pension deficit to zero by 2027, which we agreed with the scheme trustees as part of the last triennial valuation dated 31 March 2019.

In 2021/22, we also contributed £27 million to the defined contribution scheme, which currently serves 94% of our employees.

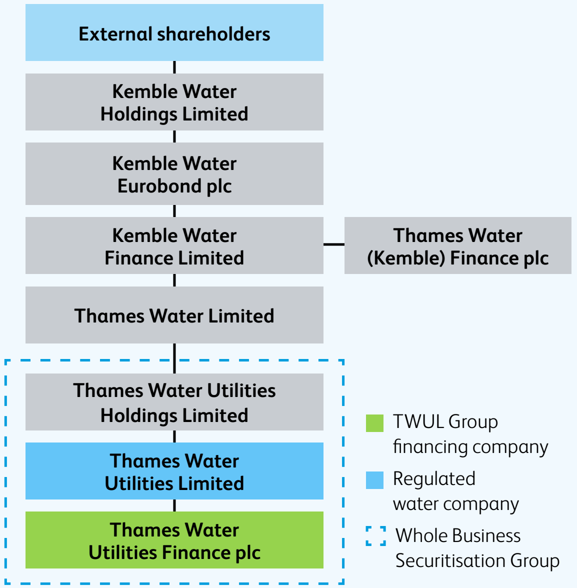
Our structure

The Kemble Water Group

Thames Water Utilities Limited is part of a group of companies owned by a consortium of institutional shareholders – mostly pension funds and sovereign wealth funds. A simplified structure, set out here, has been in place since 2006 when the Thames Water group was acquired from RWE. All the companies in this structure are registered in the UK, in accordance with the Companies Act 2006, and are also registered for tax with HMRC.

In 2007, we established a 'whole business securitisation' debt structure to insulate our creditworthiness from our ultimate shareholders and holding companies. We introduced comprehensive covenant and security arrangements for secured creditors within Thames Water Utilities Limited to secure and maintain our strong investment grade credit rating.

Our structure explained



This chart sets out an abridged version of the Kemble Water Holdings Limited Group Structure.

Kemble Water Holdings Limited
This is the ultimate, UK incorporated company of the Group, set up in 2006 for investors to hold shares in the Group.

Kemble Water Eurobond plc
This is a UK incorporated company, originally set up to raise debt from shareholders to help buy TWUL in 2006.

Kemble Water Finance Limited
This is a UK incorporated company, originally set up to raise debt from external lenders to help buy TWUL in 2006. External lenders require greater security than shareholders, so their debt is held in a separate company, which is closer to TWUL.

Thames Water Limited
This is a UK incorporated company and was at one point listed on the London Stock Exchange. Now it holds pension obligations and other non-regulated companies.

Thames Water Utilities Holdings Limited
This is a UK incorporated company, set up in 2007 for the whole business securitisation (WBS), and provides security to WBS lenders over the shares in TWUL.

Thames Water Utilities Limited ('TWUL')
This is our regulated operating company which provides water and sewerage services.

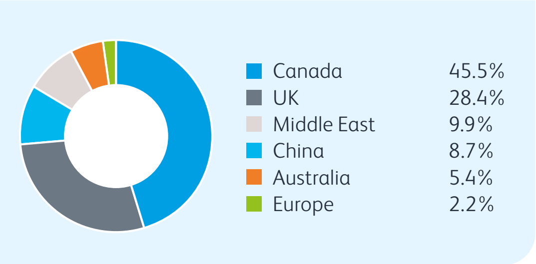
Thames Water Utilities Finance plc
This is a UK incorporated company which raises debt to fund investment in our water and sewerage network. This booklet focuses on the finances of Thames Water Utilities Limited, our operational company.

Our external shareholders

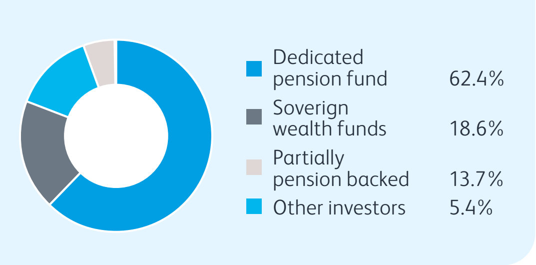
Thames Water is jointly owned by nine institutional investors made up mostly of pension funds, representing key workers, and sovereign wealth funds. The two largest investors are pension funds – one based in Canada and one in the UK. All our investors take a long-term view of the company's infrastructure, our customers and the natural environment.

In December 2021, USS (Thames Water's second largest shareholder) acquired an additional 8.77% in the company from Wren House Infrastructure. USS, a UK based pension scheme, is an experienced investor in regulated infrastructure assets, and the increase is a testament to their support of Thames Water's long-term strategy and investment needs.

Shareholders by geography

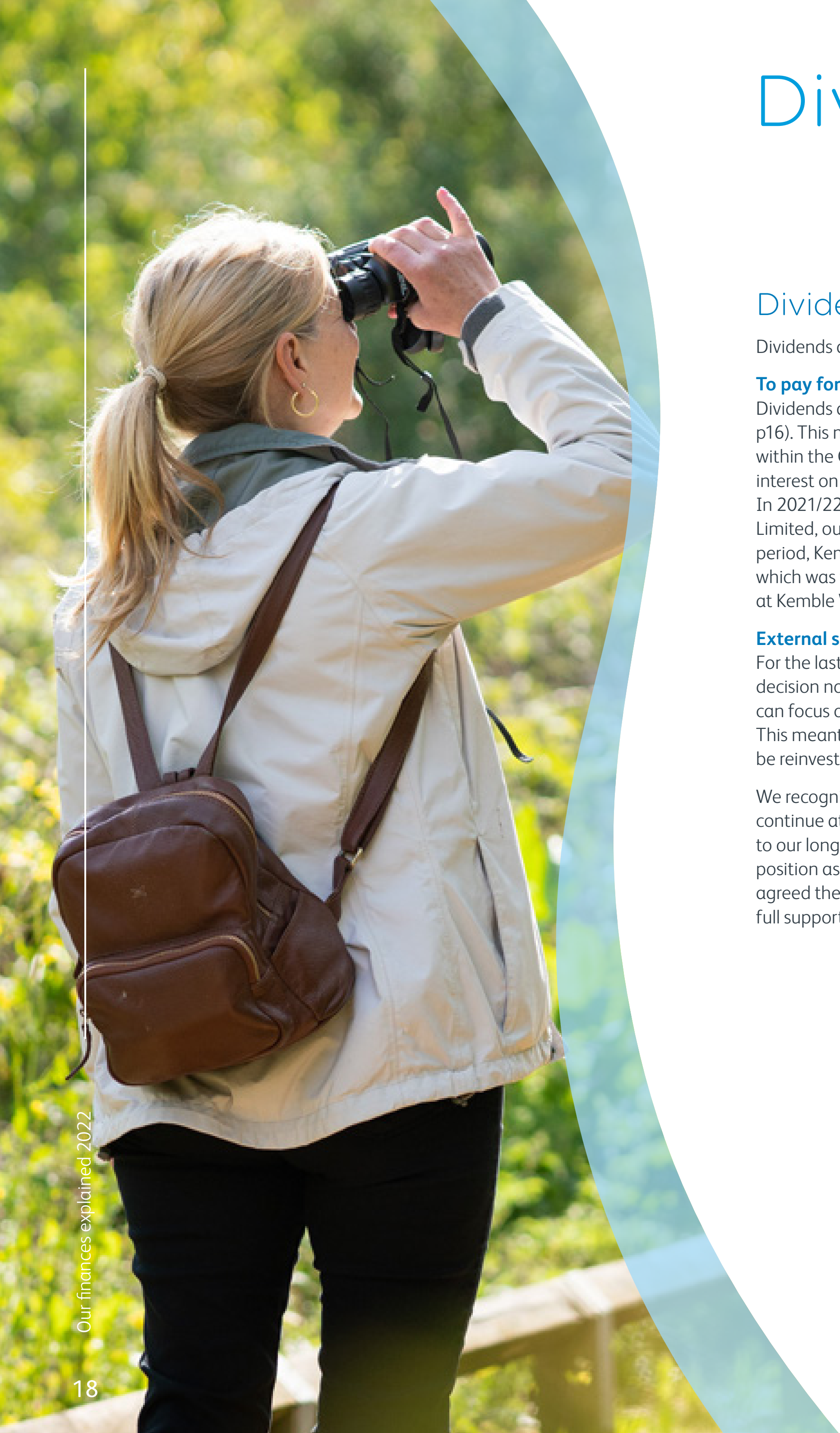


Shareholders by type



Our external shareholders

Shareholder	Shareholding	Acquired stake	About
OMERS	**31.777%**	Four transactions between May 2017 and July 2018	• Ontario Municipal Employees Retirement System (OMERS) is one of Canada's largest pension plans with C$109bn of net assets and considerable experience of managing essential infrastructure globally
USS	**19.711%**	2017, 2021	• The Universities Superannuation Scheme (USS) is a UK pension scheme for academic staff of UK universities
Infinity	**9.900%**	2011	• Infinity Investments S.A is a subsidiary of the Abu Dhabi Investment Authority (ADIA) - one of the world's largest sovereign wealth funds
BCI	**8.706%**	2006	• British Columbia Investment Management Corporation (BCI) provides investment management services to British Columbia's public sector
Hermes	**8.699%**	2012	• Hermes GPE is one of Europe's leading independent specialists in global private markets. Manages the BT Pension Scheme (BTPS), one of the largest UK private- sector pension schemes
CIC	**8.688%**	2012	• China Investment Corporation (CIC) is one of the world's largest sovereign wealth funds
QIC	**5.352%**	2006	• Queensland Investment Corporation (QIC) is a global diversified alternative investment firm, one of the largest institutional investment managers in Australia
Aquila	**4.995%**	2013	• Aquila GP Inc. is a leading infrastructure management firm and a wholly owned subsidiary of Fiera Infrastructure Inc., a leading investor across all subsectors of the infrastructure asset class
PGGM	**2.172%**	2006	• PGGM (Stiching Pensioenfonds Zorg en Welzijm) are a pension fund service provider and manage the pensions for different pension funds, the affiliated employers and their employees



Dividends

Dividends

Dividends are used for two purposes:

To pay for holding company obligations
Dividends are initially paid to our immediate parent company (see p16). This money is then transferred up through various entities within the Group, thus allowing the holding companies to pay the interest on their own external debt and other group related costs. In 2021/22, we paid £37 million to Thames Water Utilities Holdings Limited, our immediate parent, for such purposes. During the same period, Kemble Water Finance Limited paid £67 million in interest, which was funded by both our dividends and existing cash reserves at Kemble Water Finance Limited.

External shareholder returns
For the last five years, our investors have supported the Board's decision not to pay any distributions to external shareholders, so we can focus on meeting our customers' performance expectations. This meant the money they would have received could instead be reinvested.

We recognise the importance of paying dividends in future years to continue attracting long-term investors who will remain committed to our long-term goals. The Board is also mindful of our privileged position as a monopoly provider of essential services and has agreed the parameters of a new and fair dividend policy, with the full support of shareholders.

Our dividend policy

Our overall objective is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants.

In assessing the dividend to be paid, the Directors are required to ensure that:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer-term ability to finance our business, including access to both debt and equity capital
- An assessment is made to determine if the payment of a dividend reflects the our performance against the final determination for AMP7 and its commitments to customers and other stakeholders
- An assessment is made of the impact that payment of the dividend may have on its commitments and obligations to customers and other stakeholders as a supplier of essential services, which includes customer commitments, environmental commitments, community commitments, employees and pension members
- An assessment is made of the long-term financial resilience of Thames Water

Dividends paid will be adjusted both upwards and downwards relative to Ofwat's 4% dividend yield guidance reflecting the company's performance in meeting its commitments and obligations to customers and other stakeholders. If a gross dividend is declared above Ofwat's 4% dividend yield guidance, applied to Ofwat's notional company, the Board will consider whether the additional returns result from performance (including progress towards degearing) that has benefited customers and may therefore be reasonably applied to finance a dividend.

Thames Water

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