



2022/23 Annual Results

10 July 2023

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Today's presentation team



Cathryn Ross
Interim Co-Chief Executive Officer



Alastair Cochran
Interim Co-Chief Executive Officer
& Chief Financial Officer

Headlines

Building strong foundations for the future

- Operational and financial performance impacted by economic conditions, extreme weather and ageing assets
- Increased support for customers and taking leadership stance on river health
- Record £1.8 billion investment in assets, a 60% increase in two years
- Strong liquidity of c.£4.4 billion as at 31 March 2023
- Continuing strong support from shareholders
 - £500 million of new equity funds drawn in March 2023
 - Agreement to provide a further £750 million in new equity in AMP7 ¹
 - Acknowledged that delivery of Turnaround Plan will require further equity support in AMP8; expected to be in the region of c.£2.5 billion ²
- Transitioning to a more focused, three-year turnaround
- Sir Adrian Montague joins Board today (10 July) as new Chair

1. Subject to satisfaction of certain conditions, including preparation of business plan (see separate press release)

2. Nature and level of such medium-term support will depend on the finalisation of the business plan and the regulatory framework that will apply to the AMP8 period



Refocusing the Turnaround

Cathryn Ross

Strong foundations laid over last two years

Fundamental changes while facing into challenges from climate change, population growth and economy



- Record £1.8 billion investment in 2022/23; over £3 billion in the last two years
- Building £0.2 billion into AMP7 capital plans for priority turnaround investments



- New regional operating model introduced
 - London and Thames Valley/ Home Counties
 - Better serving customer needs
 - Clearer accountabilities



- Insourced and expanded capital delivery capability; 500%+ increase in spend since 2020/21
- Insourced repair and maintenance, leading to increase in leaks fixed
- On-shored customer-facing care teams; 175 new jobs in Swindon



- Upgrading of Executive Team and wider Leadership Community
- Culture created for colleagues to raise issues and concerns
- Identifying key issues to be addressed by the turnaround (e.g. Asset Health, Compliance)

However, performance still lagging

Severely impacted by extreme weather on ageing assets

- 55% of annual performance commitments met
- Complaints fell by 28%, the second consecutive significant year-on-year reduction
- Improvements in several key performance commitments including a reduction in sewage discharges, internal sewer flooding, and sewer blockages
- Record summer drought had significant impact on leakage and pollutions performance
- Detailed review of our ageing Victorian asset infrastructure underway

Customer		
Total household complaints	C-MeX	Per capita consumption
75,768 FY22: 105,155	17 th of 17 FY22: 17 th of 17	146 ¹ FY22: 147.5

Water			
Water supply interruptions	Water quality compliance	Leakage	Acceptability of water to consumers
19min54secs FY22: 11min03secs	10.96 FY22: 2.59	602.2 FY22: 605.6	0.44 ² FY22: 0.49

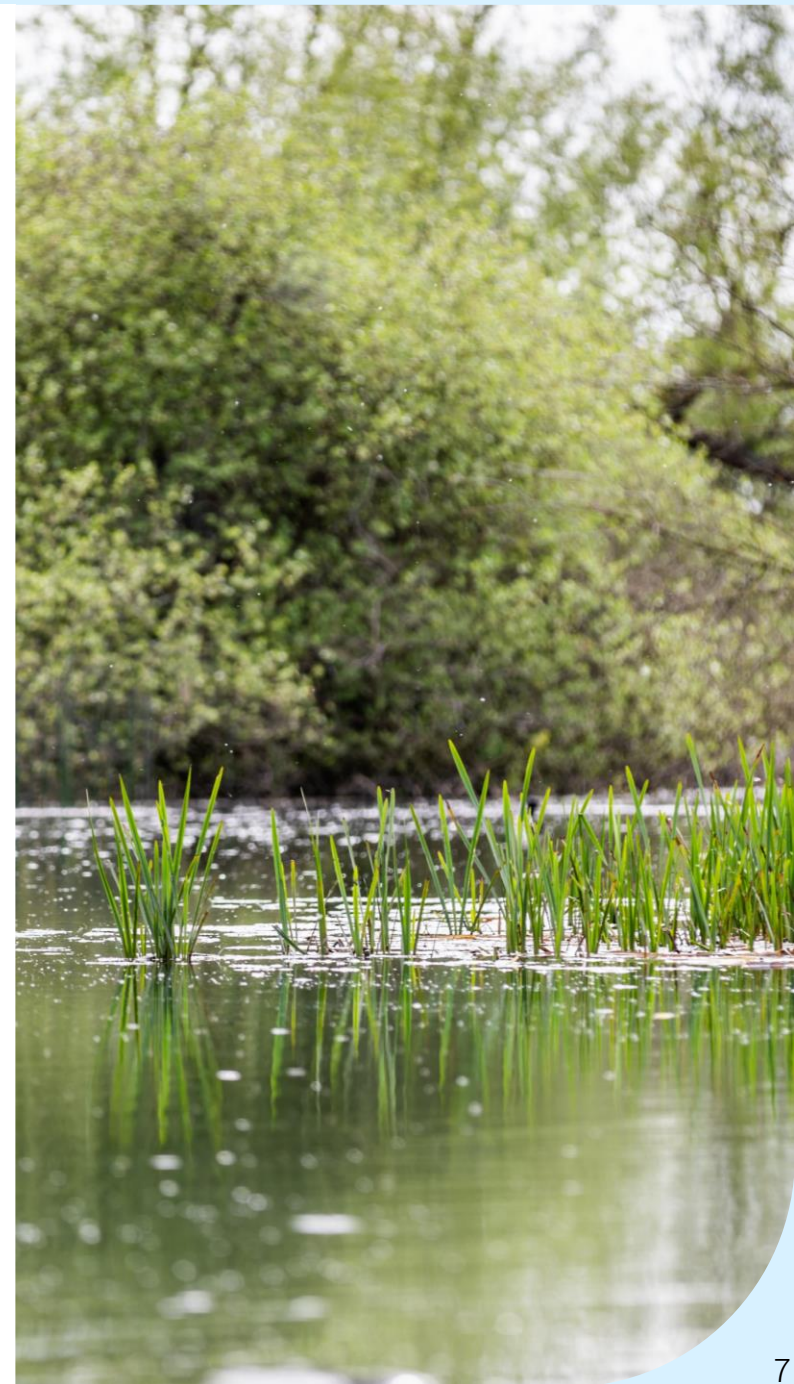
Waste			
Blockage clearance	Treatment works compliance	Pollution incidents	Internal sewer flooding
73,780 FY22: 74,569	99.48% FY22: 98.96%	30.37 ³ FY22: 24.87	1.91 ⁴ FY22: 3.46

¹Litres per person per day ²No. of contacts per 1,000 population ³No. per 10,000 km of sewer ⁴No. per 10,000 connections

Refocusing the turnaround

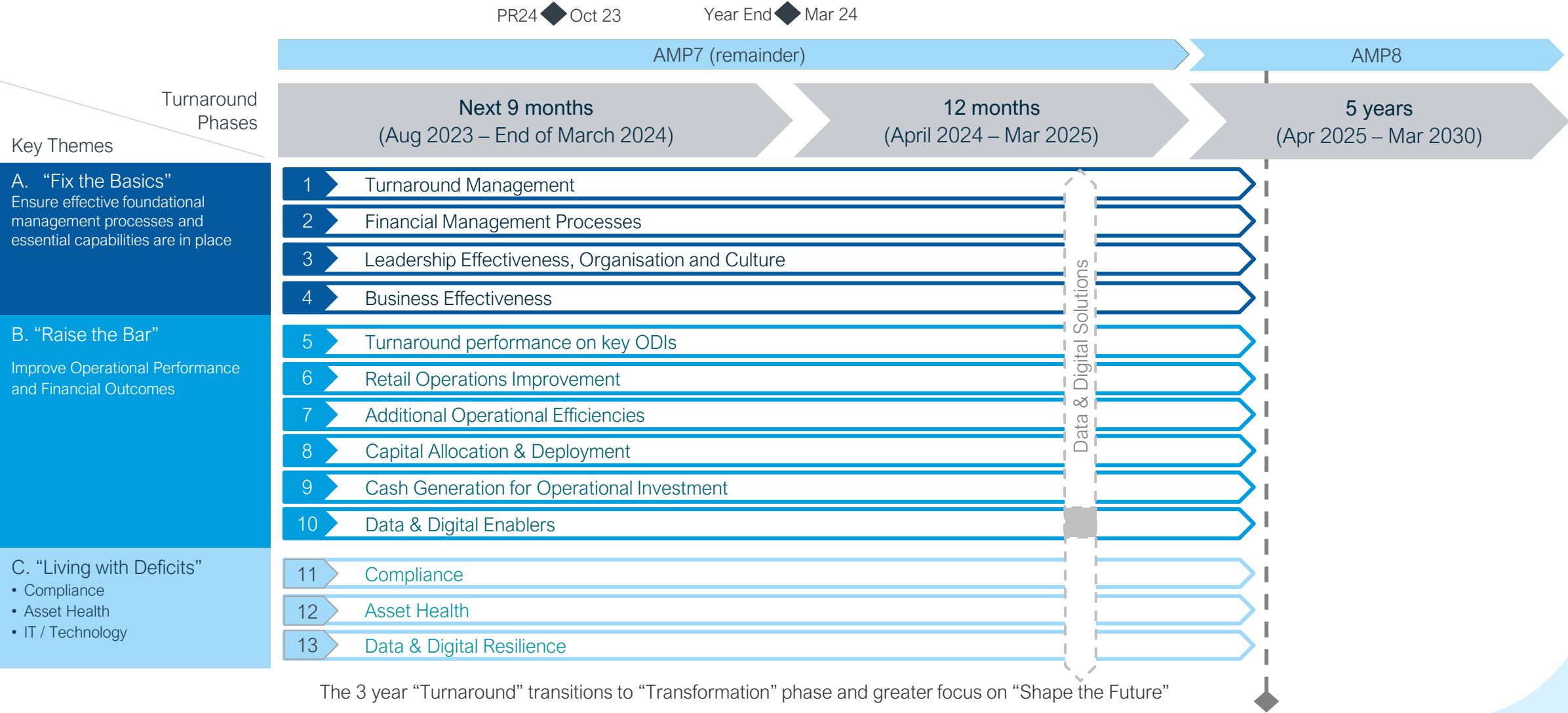
De-risking delivery to provide a platform for AMP8

- Clear that the turnaround needs to go deeper and deliver results more quickly
- Launched in-depth review of 8 year plan, resulting in:
 - No fundamental change of direction; more targeted to drive faster outcomes
 - Focus on tighter, 3 year turnaround timeframe building on foundations
 - Bolstering turnaround expertise and ringfencing more resource
 - Maximising value from allowed expenditures with tighter financial discipline
- Condition of ageing assets will require ongoing risk management



Refocusing the turnaround

13 priority workstreams building on existing efforts but adding several critical new initiatives and controls



Looking ahead to PR24

Funded business plan supported by stakeholders is the foundation of the turnaround

PR24 is not business as usual

- Climate and population trends mean water supply is likely to fall 30% short by 2050 without investment
- Shifting public attitudes on the value of investment to prevent water scarcity and reduce pollution
- Age and condition of our infrastructure is an underlying drag on performance
- Affordability concerns to be addressed given cost of living pressures
- Awaiting some regulatory decisions

Focus of AMP8 plan

- Stabilise operational performance
- Increase delivery capacity (in house and in supply chain)
- Focus KPI improvement: leakage, supply interruptions and pollution
- Manage and stabilise our asset health through investment
- Support more customers through expanded and targeted social tariff scheme
- Invest more to meet regulatory requirements; some phasing of programme delivery into AMP9

Engaging with stakeholders

- Maintain dialogue with customers and stakeholders on their needs
- Top level engagement on our turnaround and PR24 priorities
- Challenge from our CCG



Financial Performance

Alastair Cochran

Financial Performance

Impacted by high inflation & investment in leakage

- Average household bills increased by c.3.5%
- 3.7ppt reduction in EBITDA margin reflecting impact of high inflation, particularly in uncontrollable costs
- Reduction in reported loss driven by gains on financial instruments
- Record investment as we ramp up capital delivery programme
- Lowest level of gearing in 10 years
- No dividends paid to external shareholders for sixth year running

Revenue

£2.3bn

up 4%

EBITDA

£1,086m

down 3%

Loss After Tax

£30m

Improved by £943m

Op. Cashflow

£1,116m

down 6%

Capex

£1,770m

up 32%

Gearing¹

77.4%

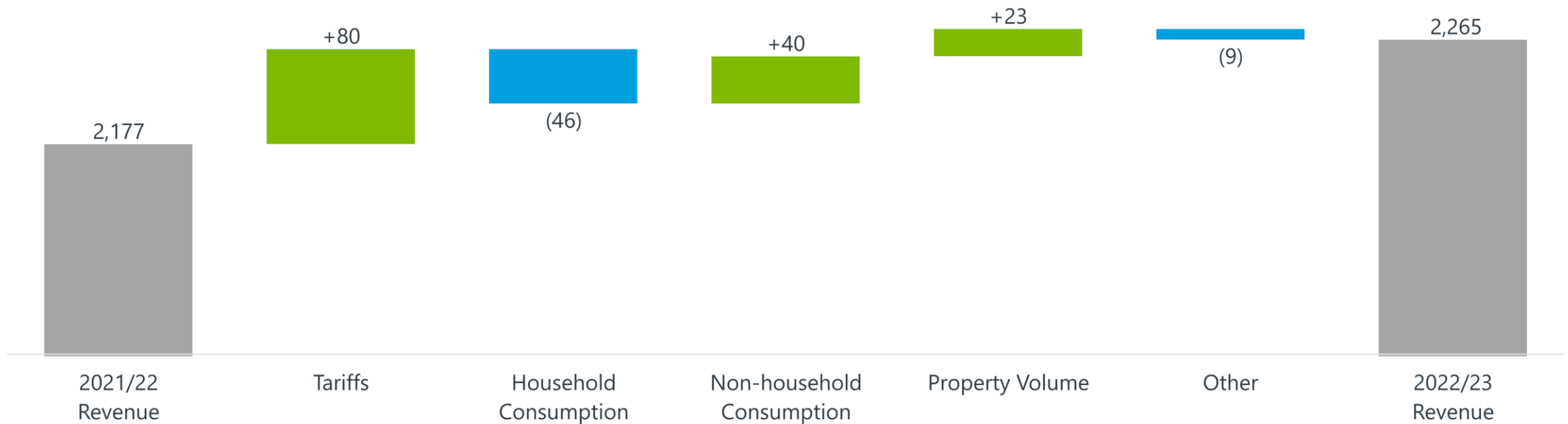
down 3.2ppt

1. Senior gearing: covenant net debt to Regulatory Capital Value ("RCV")

Revenue growth driven by higher tariffs

Growth in tariffs lagged actual CPIH inflation

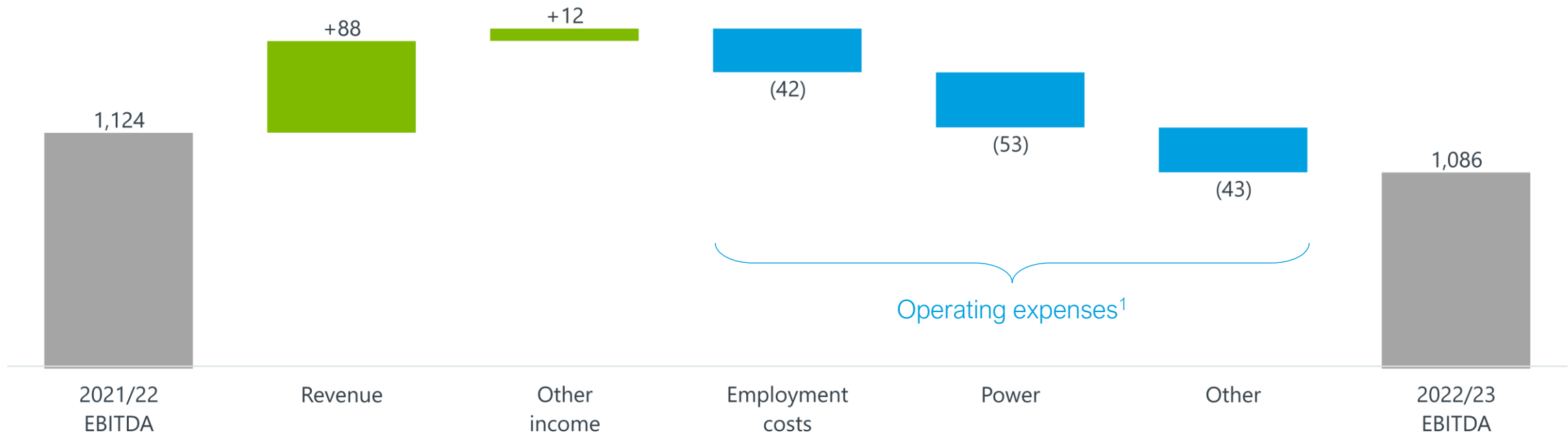
Revenue Bridge (£m)



EBITDA impacted by inflation & leakage investment

Above inflation increases in energy, chemicals & business rates partly mitigated by efficiency programme

EBITDA Bridge (£m)



1. Excluding depreciation, amortisation and impairment of property, plant and equipment

Record levels of investment in our network

60% increase in two years following insourcing of capital delivery

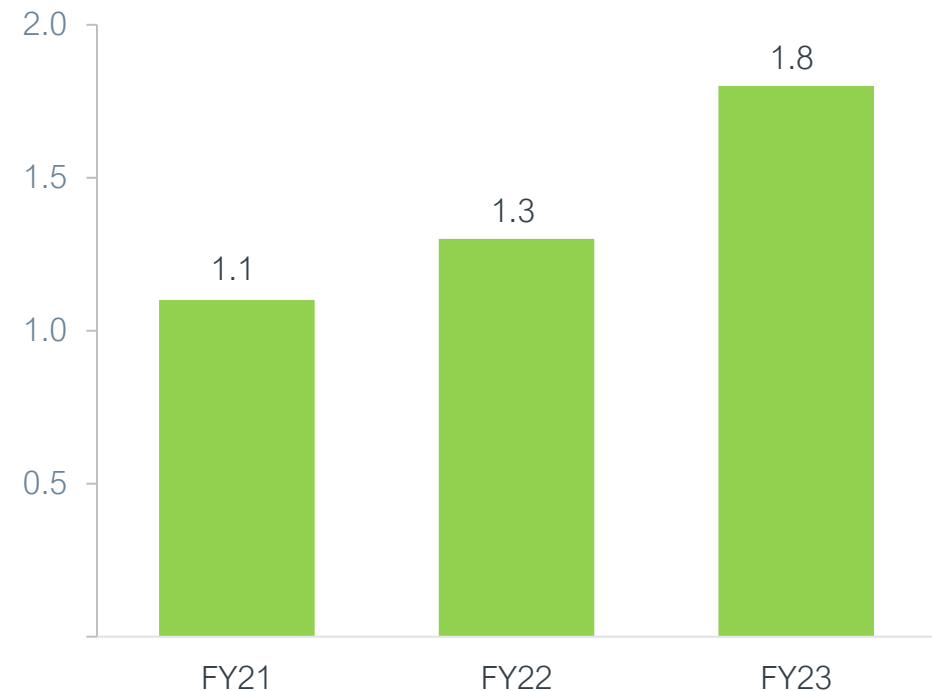
Invested £1.8 billion in our network in 2022/23

- 38% year-on-year increase
- Insourced and expanded capital delivery capability; 500%+ increase in spend since 2020/21
- Investment in asset resilience & environmental programmes

Maintaining high levels of investment for remainder of AMP7

- Targeting further increase in self-delivered volumes
- c.70% of 2023/24 major projects on contract
- Managing supply chain constraints
- Major near-term project milestones
 - Beckton ET01 (Oct-23)
 - Faringdon to Blunsdon water main commissioning (Jan-24)
 - Crawley STW upgrade (Apr-24)

Capex (£bn)



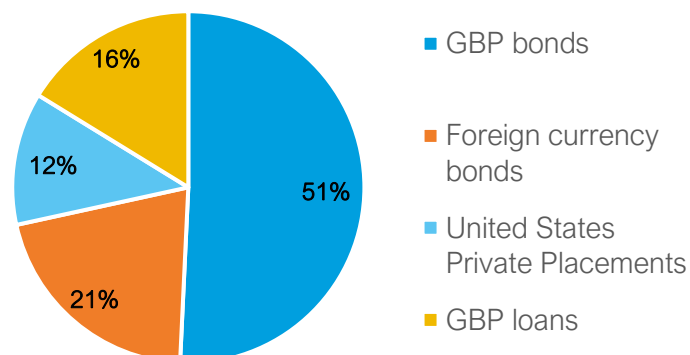
Financing our investment programme

Diversified sources of funding

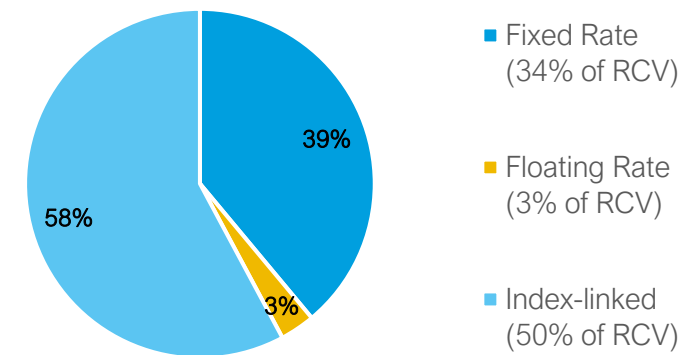
- Raised £3.6 billion in new debt and facilities in 2022/23 including
 - £623 million USPP notes
 - €1.65 billion bonds
- £500m equity funding drawn in March 2023
- Prudent Treasury Management Policies mitigated impact of rising interest rates
 - 97% of debt fixed or index-linked
 - 2.3% effective cash cost of interest¹
- Expect to continue to utilise our Sustainable Financing Framework for a portion of our public bond issuance

Debt and interest rate profiles as at 31 March 2023

Debt sources



Interest rate profile (debt and derivatives combined)



Credit ratings

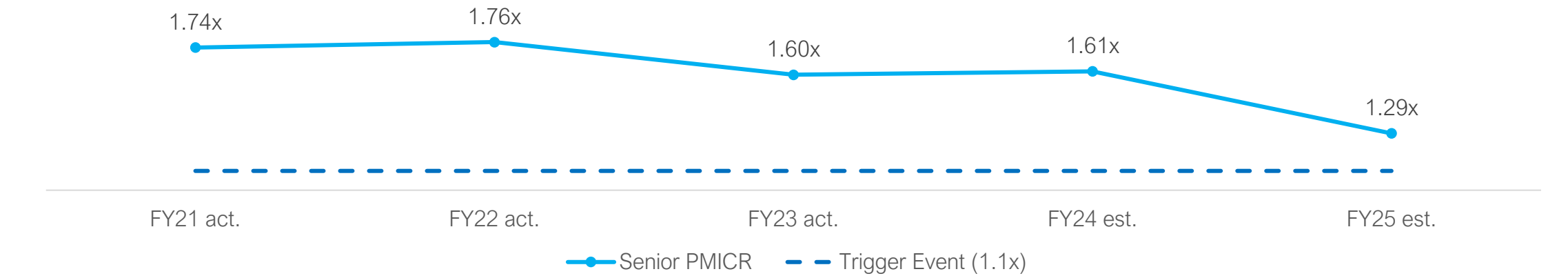
Agency	Class A	Class B	Outlook
S&P	BBB	BB+	CreditWatch negative
Moody's	Baa1	Ba1	Stable

1. As at 31 March 2023 (Table 1E of Regulatory Tables). Excludes inflation accretion on debt (10.8% effective cost of interest including inflation accretion)

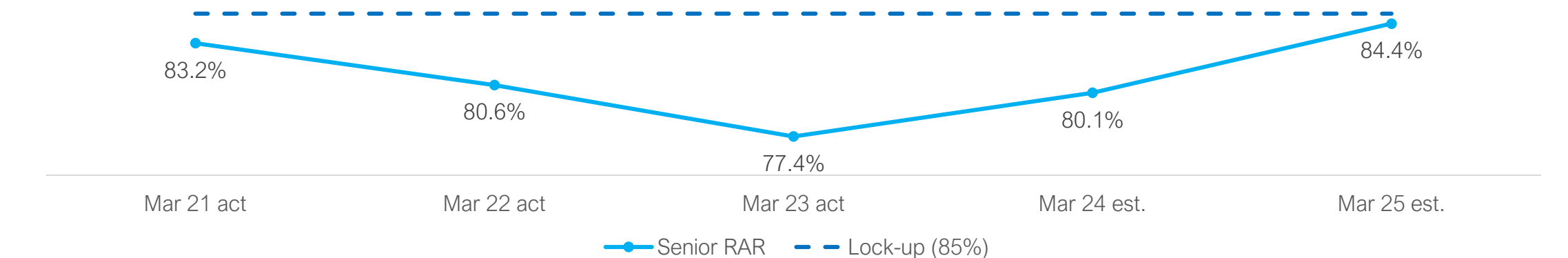
Fully compliant with our financial covenants

Lowest level of gearing in 10 years & nominal RCV growth of £4.4bn AMP7 to date

Senior PMICR



Senior RAR



Strong liquidity

Prudent financial policy pre-funds capital programme, operating requirements & near-term maturities

- Maintained liquidity to cover next 15 months of cash requirements
 - Excludes £550 million of liquidity facilities
- All revolving credit facilities currently undrawn
- Planning to refinance £1.7 billion¹ of debt maturities in 2023/24
 - £2.5 billion² of debt maturities, at average cost (including accretion cost) of 9.4%, left to refinance in AMP7

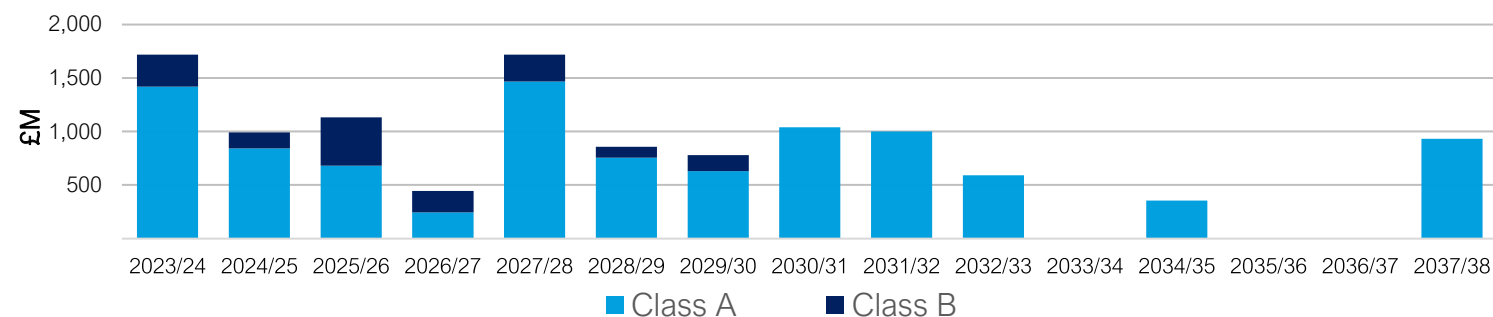
1. Excluding future accretion

2. Excluding future accretion and accretion paydowns

Liquidity as at 31 March 2023

£m	Total	Drawn	Available
Class A facilities			
Revolving Credit	2,326	-	2,326
Term Loans	199	-	199
Class B facilities			
Revolving Credit	371	371	-
Term Loans	65	-	65
	2,961	371	2,590
Cash			1,836
Total Liquidity			4,426

TWUL debt maturity profile over next 15 years

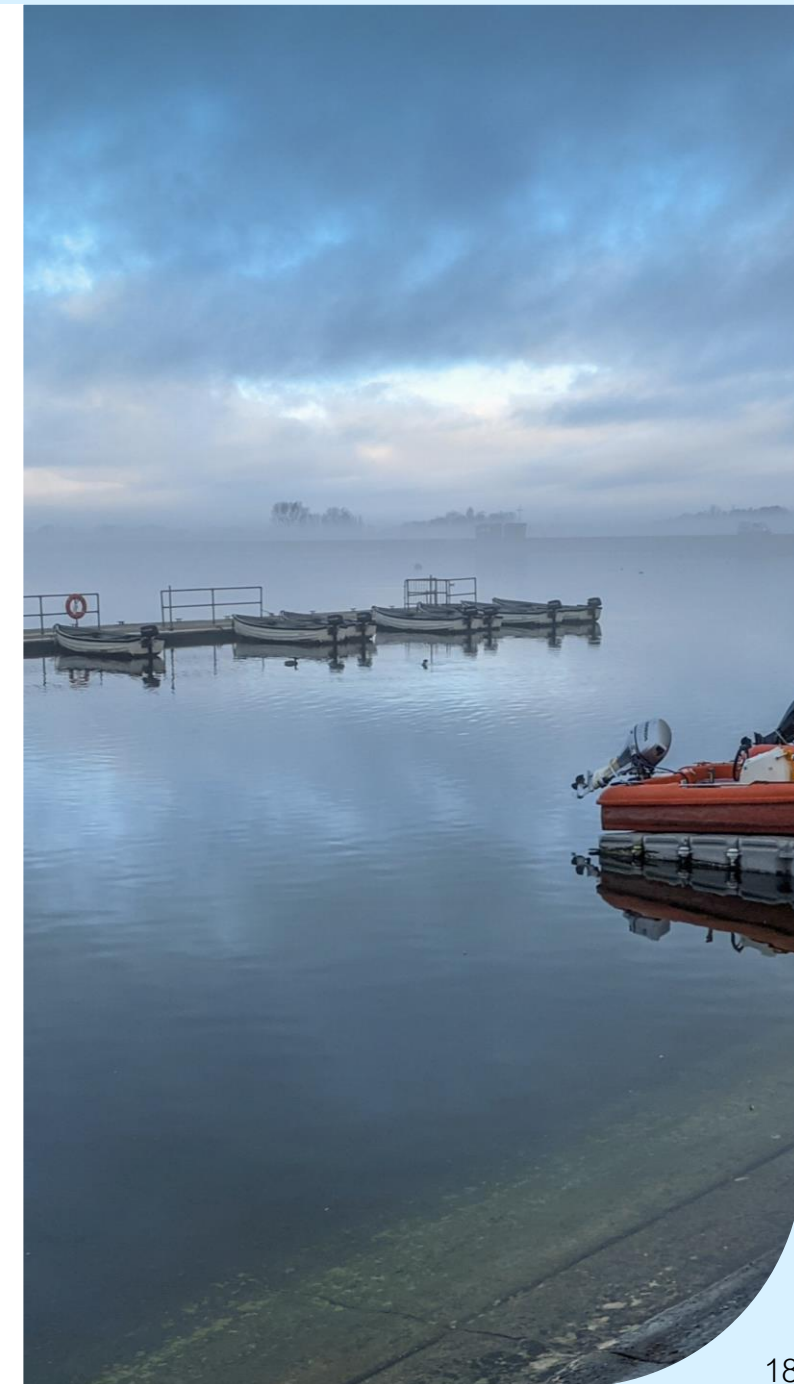


Additional equity to drive turnaround

Continued strong support from shareholders

- Our shareholders have consistently been very supportive of Thames Water by approving investment in the business over and above regulatory allowances, foregoing any income since 2017 and investing new equity funding
- Drew down £500 million of new equity funds on 30 March 2023
- Shareholders have agreed to provide a further £750 million in new equity funding across AMP7, subject to satisfaction of certain conditions¹
- Shareholders have also acknowledged that delivery of the Turnaround Plan will require the provision of further equity support in AMP8, significantly in excess of the current AMP7 commitment
 - Expected to be in the region of £2.5 billion
 - Nature and level of such medium-term support will depend on the finalisation of the business plan

1. Conditions include the preparation of a business plan that underpins a more focused turnaround that delivers targeted performance improvements for customers, the environment and other stakeholders over the next three years and is supported by appropriate regulatory arrangements





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