Thames Water Utilities Limited
Including Kemble Water Finance
Investor Report

30 September 2023

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This report should be read in conjunction with, and as a supplement to, the Thames Water Utilities Limited ("TWUL") Interim report for the six months ended 30 September 2023. Please refer to the Thames Water website www.thameswater.co.uk for this document in full.

Contents

1. Overview for the six months ended 30 September 2023

Operational highlights

- 49% reduction in customer complaints backlog; total complaints up 13%
- 90% reduction in CRI
- 6% reduction in leakage
- 60% reduction in supply interruptions
- Thames Tideway Tunnel on track for commissioning, the third phase of improvements that will increase the health of the river by reducing combined sewer overflows by c.95%
- 10% increase in social tariff support for customers in vulnerable circumstances

Financial highlights

- Underlying Revenue up 11% to £1.2 billion
- Underlying EBITDA[1] up 22% to £627 million
- £1.0 billion invested in assets, a 30% year-on-year increase
- £3.5 billion of committed liquidity[2], underpinning our AMP7 investment programme

Refocused Turnaround Plan approved

- New three-year turnaround plan to deliver a step change in performance
- Six key operational priorities aligned to what our customers care about the most
- Builds on the good progress and foundations laid in the last two years
- Underpins delivery of our ambitious £18.7 billion PR24 business plan submitted to Ofwat

Interim Co-CEOs, Cathryn Ross and Alastair Cochran said:

"Today, we have announced a solid set of results with improvements in our key operational priorities and underlying financial performance in the first half. We've also invested a record £1 billion in the period to increase resilience in our network, improve customer service and environmental performance, and mitigate the impacts of climate change and population growth.
"We have also submitted our business plan for 2025-30 to Ofwat as part of its PR24 price review and had our refocused Turnaround Plan approved by our Board. These plans build on what we have achieved over the last two years, and will deliver a turnaround in performance and step change in investment in the areas that matter most to our customers.

"Our shareholders support this much needed investment, underscoring their commitment to delivering Thames' turnaround and life's essential service for the benefit of our customers, communities, and the environment. At the same time, we recognise our customers are continuing to face cost-of-living challenges. We've therefore further increased our social tariff support in the first half of this year and our plans for the next regulatory period set out an expectation that we will provide over 530,000 households with meaningful support with their water bills.

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[1] Calculated excluding exceptional items

[2] As at 30 September 2023; excludes £550 million of additional undrawn liquidity facilities that can be drawn in limited circumstances

"Turning around Thames will take time. We simply cannot do everything that our customers and stakeholders wish to see at a pace and for a price that everyone would like. We will continue to make the tough choices required to deliver what matters most to our customers and the environment. By being honest about what we can deliver and transparent about what we are doing, we believe we will build the trust and support we need from our customers and stakeholders if we are to succeed in our ambitious plans.

Key financials

£m	30 September 2023			30 September 2022			
	Underlying	BTL[1]	Total	Underlying	BTL[1]	Total	Total % Movement
Revenue	1,210.9	58.8	1,269.7	1,092.8	42.4	1,135.2	+12%
Operating expenses	(1,053.0)	(0.3)	(1,053.3)	(968.6)	(0.1)	(968.7)	+9%
Operating profit[2]	227.6	58.5	286.1	174.5	42.3	216.8	+32%
EBITDA[3]	627.1	58.5	685.6	513.3	42.3	555.6	+23%
Net finance expense	(208.7)	-	(208.7)	(261.0)	–	(261.0)	(20%)
Net gain on financial instruments	169.0	-	169.0	580.0	–	580.0	(71%)
Profit before tax	187.9	58.5	246.4	493.5	42.3	535.8	(54%)
Profit after tax excluding exceptional items[4]	141.8	43.9	185.7	331.7	65.9	397.6	(53%)
Profit after tax	128.4	43.9	172.3	331.7	65.9	397.6	(57%)
Operating cash flow excluding exceptional items[4]	584.8	4.9	589.7	581.8	0.6	582.4	+1%
Operating cash flow	579.1	4.9	584.0	581.8	0.6	582.4	+0%
Capital expenditure including intangibles	1,049.0	-	1,049.0	808.4	-	808.4	+30%
Net debt (statutory)	14,738.7	-	14,738.7	13,776.2	–	13,776.2	+7%
Gearing (%)[5]	79.5	-	-	80.0	–	–	(1%)
Credit Rating[6]	Baa2 (stable) / BBB (watch negative)			Baa2 (stable) / BBB (stable)			-

[1] For information about the Bazalgette Tunnel Limited ("BTL") arrangement, see page 25 of the Interim results for the six months to 30 September 2023
[2] Operating profit includes revenue and other operating income, offset by operating expenses
[3] EBITDA calculated excluding exceptional items
[4] For more details on exceptional items, see CFO section of the Interim results for the six months to 30 September 2023
[5] Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 12 of the Interim results for the six months to 30 September 2023
[6] Representing the consolidated Corporate Family Rating assigned by Moody's / S&P Class A debt of the securitisation group

2. PR24 / AMP 8 submission

During October 2023, Thames Water submitted its business plan for 2025-30 to Ofwat as part of Price Review 2024 (PR24) following consultations with nearly 20,000 customers, the communities in which it operates and its wider stakeholders.

Cathryn Ross and Alastair Cochran, Interim Co-CEOs of Thames Water said: "Our ambitious plan delivers what our customers have told us are their top priorities. We plan £18.7 billion total expenditure - including a record £4.7bn investment in our network and other assets - to maintain safe high quality drinking water, to ensure security of water supplies across London and the Thames Valley now and in the future, and to deliver further environmental improvements. Our plan prioritises storm overflows, bathing water status and reducing leaks and pollutions. In parallel, we will do more than ever to support customers by introducing an improved social tariff for those who struggle to pay their bills."

Our plan will deliver a reliable, secure and affordable service for customers by:

- Preserving a reliable supply of water, with minimal disruption
- Replacing 500km of ageing water mains
- Maintaining safe, high-quality drinking water by replacing 54,000 lead pipes
- Upgrading 150km of sewers to lower the risk of sewer collapses
- Reducing the number of times sewage floods into properties by 17% as well as all other external sewer floods by 14%
- Providing over 530,000 households meaningful support with their water bills
- Resolving more billing and operational issues within 24 hours by improving digital infrastructure, allowing customers to resolve more issues online

Our plan will create more jobs and enhance biodiversity for communities by:

- Hiring more local people by increasing the number of T-levels, summer internships and apprenticeships
- Investing £12 million in improving land to boost biodiversity

Our plan will further materially improve Thames Water's environmental footprint by:

- Reducing storm overflows by 28%
- Reducing blockages caused by sewer misuse by 15%
- Reducing the total number of pollution incidents by 30%
- Opening the Thames Tideway Tunnel, London's "super sewer", the third phase of improvements that will increase the health of the river by reducing combined sewer overflows by c.95%
- Investing to improve the bathing water quality at Wolvercote Mill Stream
- Spending over £2.5bn to deliver a 22% reduction in leakage
- Reducing water use per person by 5.5%

- Continuing our industry leading roll out of 1 million smart meters to make it easier for customers to save money and find leaks
- Ensuring water security for this and future generations, including consulting and planning for a reservoir near Abingdon
- Replacing assets that come to the end of their life with carbon neutral alternatives

Our plan is financeable by:

- Delivering an £18.7 billion totex programme to maintain safe high quality drinking water, ensure security of water supplies and deliver further environmental improvements
- Offering sufficient returns for further shareholder funding of £3.25 billion in AMP7 and AMP8, in addition to £0.5 billion received in March 2023
- Proposing a Weighted Average Cost of Capital of 4.25% (real)
- Delivering c.30% real RCV growth over AMP8
- Targeting BBB+/Baa1 investment grade credit ratios
- Reducing average gearing to 71% and strengthening post maintenance interest cover ratio to 2.1x
- Assuming no dividends are paid to our external shareholders during AMP8

Interim Co-CEO's Statement

We and our shareholders are fully committed to deliver a step change in investment and performance. That is why, between 2025 and 2030, our plan proposes to invest a record £4.7bn in our network and other assets, which will improve water security for our customers in London and the Thames Valley and deliver environmental improvements. This investment is critical to building greater resilience in the face of an ageing asset base, climate change and population growth. In doing so, we will more than double current levels of investment.

For over three decades Thames Water's bills have been below the industry average, despite us having the oldest network. And they are no higher today than a decade ago. To deliver water security and environmental improvements, our bills will need to rise but also be affordable.

We are all too aware that we are asking customers to pay more at a time when many are already facing financial pressure from household bills rising across the board, but it is now vital to fund future investment. We will therefore do more than ever to support customers who struggle to pay their bills and our plan proposes to provide over 530,000 households with meaningful support with their water bills.

We also have choices about exactly how we recover the costs of providing life's essential service over the next period. If we were to adopt a 'rise and flat' bill profile during 2025-2030, the average monthly bill will rise by £14.55. Alternatively, we could introduce lower bill increases at the start of the next price control period, but this would mean steeper rises over time. We are looking forward to discussing the right bill profile for our customers further in the coming months.

We are committed to doing our best to ensure that customers do not pay more than they need to for this vital investment by becoming a more agile, efficient, and responsive company. We will also make sure we deliver performance improvements in the areas that matter most to our customers. Our refocused, prioritised three-year turnaround plan will build on what we have achieved over the last two years and take us into the next period. It will deliver a turnaround in performance and a more resilient Thames Water.

Our shareholders are stepping up to support this much needed investment, underscoring their commitment to delivering Thames' turnaround and life's essential service for the benefit of our customers, communities and the environment. Shareholders have already invested £500 million of new funds in 2023. In addition, they have agreed to provide a further £750 million in new equity funding across AMP7. This further funding is subject to satisfaction of certain conditions, including 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. Our shareholders have also acknowledged the need for additional equity investments indicatively in the region of £2.5 billion in AMP8. In aggregate, this would equate to total equity investment of £3.75 billion, the largest equity support package ever proposed in the UK water sector.

We will be hosting 'Your water, your say' meetings for customers and other stakeholders in the coming months to gather feedback on our plan. However, we simply cannot deliver everything that our customers and stakeholders would like to see between now and 2030. Our plan reflects the difficult choices we have had to make. We take delivering our obligations very seriously. We also need to deliver performance improvements in those areas that matter most to our customers and stakeholders, whilst continuing to deliver our turnaround and ensuring our infrastructure is more resilient for the future.

We have had constructive discussions prior to submission with our regulators on the scope of both our plan and proposed regulatory arrangements, which include the scale of log-up to CPIH-real RCV for totex overspend in AMP7, allowed totex relative to actual spending in AMP8, and the maximum level of penalties that we can incur under Ofwat's Outcome Delivery Incentive regime. We are looking forward to continuing these discussions - which could influence the scope of our plan, the bill impact and bill profile - and securing a price control that, in the round, allows us to both deliver record levels of investment for the benefit of the customers, communities and environment we serve, and offer investors an opportunity to earn the returns required to finance it.

3. Turnaround plan and financial resilience

Our refocused turnaround plan

Thames Water is privileged to provide life's essential service across our region. We supply 2.6 billion litres of clean drinking water to more than 10 million customers every day and treat 4.6 billion litres of sewage for more than 16 million customers. Across many areas of performance, we are in line with water industry averages. But in some other areas our performance needs to improve, including some areas of operational and environmental performance that matter most to our customers and communities. Our financial performance also needs to improve. It is clear that immediate and radical action is required.

It is not possible to address all the challenges facing Thames Water at the same time. Delivering a turnaround in performance requires a focus on the priorities that most matter now. We need to focus our resources on those outcomes that will evidence to our customers, regulators, shareholders and other stakeholders that Thames' leadership is able to navigate a way back to sustainably delivering our purpose to deliver life's essential service so our customers, communities and the environment can thrive.

We have therefore undertaken a structured and rigorous process during the first half of this year to develop a refocused, three-year Turnaround Plan. It focuses on six key operational priorities – health and safety, customer complaints, water quality, leakage, supply interruptions, and pollutions. And it will provide a springboard to deliver our ambitious plan for customers and the environment during the next regulatory period spanning 2025 to 2030 ("AMP8"). It is based on a resolute focus on understanding root cause issues and prioritising improving key outcomes. We will measure incremental progress through leading - as well as lagging - indicators, so that we know we are heading in the right direction, enabling us to build momentum before we see the material, sustained improvements in outcomes that will take time to deliver.

It also builds on good progress in recent years in building back some core internal capabilities that had been lost, in areas such as health and safety, capital delivery, some aspects of operational performance, customer contact, asset maintenance and stakeholder engagement. Basic operational performance has been improved in many areas, with significant reductions achieved in customer complaints and network blockages, whilst the ongoing Public Health Transformation Plan has reduced water quality risks (as measured by CRI).

Whilst business resilience remains fragile with frequent failures in our ageing infrastructure, we have taken a risk-based approach to improve reliability by more closely managing core assets and we have started to bring greater rigour to maintenance practices. We have also developed long-term asset plans to build resilience and redundancy that will ultimately restore operations to a level our customers expect.

Caring for customers

For over three decades Thames Water's bills have been below the industry average, despite us having the oldest network. And they are no higher today than a decade ago. To deliver water security and environmental improvements, our bills will need to rise but also be affordable. We are therefore committed to do more than ever to support customers who struggle to pay their bills.

Since launching new eligibility criteria for our social tariff, we have increased support to a further 30,000 households taking the total to 335,000 in the first half. This represents a more than doubling of the level of support provided in three years. We're proposing to increase this support further in the next regulatory period, to over half a million households, as we balance affordability with the need to ensure water security for today's customers and those of tomorrow.

Financial resilience

We continue to maintain high levels of liquidity, diversify sources of funding, pre-fund maturities and maintain a balanced debt maturity profile.

A step change in investment is being funded through a combination of customer funding, debt capital and new equity. Consequently, and as expected, both net debt and regulatory capital value increased in the first half. This resulted in senior gearing of 79.5% as at 30 September 2023, below the maximum allowed under our covenant of 95.0% and the 85.0% lock-up level.

Furthermore, the TWUL Group had total liquidity of £3.5 billion as at 30 September 2023, as well as £550 million of other undrawn liquidity facilities that can be drawn in limited circumstances. In addition, after the period end, we completed £625 million of funding transactions that further extended our liquidity runway.

As previously disclosed, our shareholders have agreed to provide a further £750 million in new equity funding across AMP7 subject to satisfaction of certain conditions. We continue to have constructive discussions with all stakeholders to satisfy these conditions and look forward to securing a PR24 price control that, in the round, allows us to both deliver record levels of investment for the benefit of the customers, communities and environment we serve, and offer investors an opportunity to earn the returns required to finance it.

4. Regulatory, business and legal update

Competition Act

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

The allegations related to:

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

TWUL responded to a number of Ofwat information requests and questions. In late 2020, Ofwat's investigation was split into two - one covering competition issues and the other covering regulatory/licence issues. As regards the competition elements of the investigation, Ofwat publicly consulted on the draft Competition Act commitments which TWUL put forward. Ofwat closed the investigation on 31 March 2022 and did not impose any penalties or make any findings against TWUL.

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

Changes to the Board

On 14 December 2023, we announced the appointment of Chris Weston as Chief Executive Officer with effect from 8 January 2024. Chris Weston was formerly CEO of FTSE 250 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 10 July 2023, Sir Adrian Montague joined as our new Chairman replacing Ian Merchant. 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 Chairman of Cadent Gas Limited and Porterbrook Holdings Limited.

On 27 June 2023, Sarah Bentley stepped down as CEO and from the Board. The process has begun to recruit her replacement and, in the meantime, Alastair Cochran, our Chief Financial Officer, and Cathryn Ross, our Strategy and External Affairs Director, are interim co-CEOs.

In April 2023, we appointed John Holland-Kaye, Chief Executive of Heathrow, to the Board as a Non-Executive Director to represent USS. In 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.

Making progress

In the first half of 2023/24, we delivered improvements in several of our key operational priorities and underlying financial performance has largely improved year-on-year. However, our performance is still not where it needs to be. 4

Health and safety: people matter more than anything else. It is why the health, safety and wellbeing of our colleagues and customers remains our most important priority. Notwithstanding this, our health and safety performance remains an area of concern, particularly as we've experienced an increase in lost-time frequency rate in the first half of the year to 0.19 per 100,000 hours worked. In response, and as part of our refocused Turnaround Plan, we're defining a long-term measurable plan that ensures health, safety and wellbeing is at the forefront of all our activity. It addresses foundational capabilities that are essential for delivering an improvement in performance, focusing on competency, visible safety leadership, and understanding and learning from incidents, as well as supporting a reduction in work-related injuries and illnesses.

Customer complaints: our overall objective is to improve the service we offer to customers, evidenced by a reduction in the overall number of complaints, the complaints backlog, and improving our cost to serve as a result. We successfully reduced the backlog of customer complaints by 49%, a key priority in the first half and have moved up the CCW (Consumer Council for Water) performance ranking for the first time. However, work to clear the backlog has generated an increased volume of second stage complaints, which has contributed to the overall inflow increasing by 13% year-on-year to 38,872. We are undertaking detailed root cause analysis and end-to-end customer journey mapping to target improvements in billing and customer side leakage, which generate the highest proportion of complaints. In addition, investment in our digital systems and data platforms next year will deliver further sustainable improvements in customer satisfaction and complaint reductions, continuing the good progress we have made in the last two years.

Water quality: at the heart of our purpose is delivering a reliable supply of safe, high quality drinking water to our customers. Following the successful launch of our Public Health Transformation Plan last year, we have delivered a 90% reduction in our water quality compliance risk index ("CRI") to 1.19 in the first three quarters of this calendar year. This plan has been supported by complementary programmes, including improvement works at our large water treatment works in London. We are committed to maintaining these high levels of water quality performance, recognising that the CRI measure is susceptible to very small increases of risk at our large water treatment works or service reservoirs.

Leakage: performance benefitted from more benign weather conditions this year compared to last summer, with leakage down 6% year-on-year to 557.1 Ml/d. We are targeting a sustained reduction through better understanding of consumption, improved targeting of detection activities, better prioritisation of repairs (including "fixing bigger leaks faster"), improving DMA operability and availability, and driving greater productivity in our field operations. We believe that a focus on delivering sustained improvements in key leading indicators will drive down leakage over time, although we are cognizant that performance remains highly sensitive to extreme weather events and the 3-year average performance commitment target measure makes recovery from major events, such as last year's drought, difficult. We are also realistic about the scale of the challenge we face given the vulnerability of our ageing infrastructure, which is why we have proposed to invest c.£1.9 billion during the next regulatory period to start to address the decline in the health of our assets. 5

Supply interruptions: we made a solid start to the year, reducing supply interruptions by c.60% year-on-year to 2 mins 52 seconds, within our performance commitment target. Our Turnaround Plan targets maintaining improvements made year to date and rolling-out our Supply Interruption Strategy, which includes nine initiatives focused on addressing trunk mains bursts and inefficiencies in mains repairs, as well as improving our response to unexpected events. This will reduce underlying performance as much as possible to be able to better absorb the impact of major incidents, which are extremely difficult to forecast and mitigate, and the inherent risk associated with high levels of asset debt in our portfolio.

Pollutions: overall performance deteriorated in the first half, with category 1-3 pollutions increasing year-on-year from 217 to 257. Our Turnaround Plan addresses and mitigates the major drivers of pollutions across our wastewater network and sewage treatment works, including more proactive network cleaning and monitoring, and better prioritised reactive responses. Consequently, blockages, which cause over 40% of network pollutions, reduced by 5% in the first half of the year. As we look ahead, changes our regulators are making to the definition of pollutions are expected to increase the overall number of pollutions we report, even if there is no change in the impact we have on the environment. Notwithstanding this, we are committed to tackle the root causes of pollutions to meet the expectations of our communities and the needs of the environment.

Investing to improve performance

In the first half of this year, we increased investment in our network and assets by 30% to £1.0 billion. This material year on year increase reflected the planned increase in investment in our infrastructure to increase resilience in our network, improved customer service, and to help mitigate the dual impacts of climate change and population growth.

Notable capital programmes in the period included the renewal of critical water mains in Finsbury Park and Seven Sisters using innovative new 'Die Draw' technology, which enables water mains to be replaced without digging up the whole length of the pipe to be replaced. We're also replacing

3km of rising main at Haydon End, near Swindon, which moves sewage uphill under pressure and has experienced several bursts in recent years. As we focus on improving our wastewater performance, we've also started work on our major new sewage treatment works in Guildford, which will construct a 'state of the art' facility to accommodate population growth in the area as well as enabling development in the town.

Cleaning up rivers also continues to be a key focus and we are on the final countdown to the commissioning of the landmark Thames Tideway Tunnel, London's "super sewer". This is the third phase of improvements that together will increase the health of the River Thames by reducing combined sewer overflows by an estimated 95%, the largest ever storm discharge reduction project in the UK water sector.

Looking further ahead, we are fully committed to deliver a step change in investment and performance. This is why, between 2025 and 2030, our PR24 business plan proposes to invest a record £4.7 billion in our network and other assets to improve water security for our customers in London and the Thames Valley and deliver environmental improvements. This investment is critical to building greater resilience in the face of an ageing asset base, climate change and population growth.

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.

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, eleven reports have been submitted, each November and May from November 2018 to November 2023.

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. Whilst TWUL met its leakage target in 2019/20, 2020/21 and 2021/22, it has missed the target for 2022/23. The underperformance was driven by the 2022 drought which created elevated demand and ground movement, as the soil dried out, placing additional strain on the network with an associated rise in leakage, followed by the December 2022 freeze/thaw event, which resulted in a spike in leakage as pipes were affected by the sudden change in temperature.

While TWUL is committed to its target to reduce leakage over the course of this AMP (compared to the 2019/20 baseline), it recognises that it has a lot to do to improve performance and has launched a Leakage Transformation Programme which sets out to enhance its ability to tackle leakage and bring leakage performance back on track. As part of this programme TWUL will drive sustained leakage reduction through better understanding of consumption, targeting of detection activities, prioritisation of repairs and more efficient field operations.

Legal proceedings update

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

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

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

TWUL is currently defending five sets of court proceedings (served in 2020 and 2021) commenced by different groups of Property Search Companies (“PSCs”) seeking refunds of fees paid for property search data, including 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 is currently underway and is due to finish just before Christmas 2023. These claims are still at too early a stage to provide any view on the effect of them on the financial position of TWUL.

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 £4m for pollution incidents at Hogsmill STW which occurred between February 2016 and September 2019. In November 2021, TWUL was fined £4 million for a pollution incident at Hinksey stream dating from July 2016. In December 2022, the Environment Agency (“EA”) initiated a prosecution against Thames 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.

On 18 November 2021, Ofwat's Acting Chief Executive published an open letter to all water and sewerage company CEO's regarding company compliance with environmental permits and made a number of requests for information which TWUL complied with. The Ofwat letter stated that Ofwat would consider enforcement action for failure to comply with permit conditions and specifically mentions the WIA 1991 drainage duties and the requirement in licences to have sufficient financial resources, management resources and systems of planning and internal control (including management oversight) to carry out regulated activities. On 8 March 2022, Ofwat served a notice on TWUL under section 203 Water Industry Act 1991. The notice contained a number of questions regarding the operation of TWUL's sewage treatment sites 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 awaits further communications from Ofwat. According to Ofwat's website as at 30 October 2023[3], TWUL is one of six companies being targeted by Ofwat in the next stage of its wastewater treatment works investigation.

In February 2023, TWUL received a letter before action from Leigh Day who are instructed by a client to bring collective proceedings against TWUL in the Competition Appeal Tribunal under s.47B Competition Act 1998. Leigh Day's client intends to act as class representative for a proposed class of consumers of TWUL for the period 1 April 2020 to present. Leigh Day allege that TWUL has abused its dominant position by (a) misleading regulators (Ofwat and the EA) regarding the number of pollution incidents that occurred during PR14 and PR19 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. BCLP has sent a substantive response on behalf of TWUL to the letter before action arguing that the claim is unsound and that it is also premature in view of the EA and Ofwat investigations. Leigh Day has also sent a letter before action to Kemble Water Holdings Limited (KWHL) and said that it too will be a defendant. BCLP has also responded to this confirming that KWHL adopts the same position as TWUL. Leigh Day has indicated that the claim against TWUL and KWHL will not be issued until next year.

[3] https://www.ofwat.gov.uk/investigation-into-sewage-treatment-works/

5. Financing

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

Table 1 Current credit ratings

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

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

In May 2023, Moody's completed a periodic review of TWUL Group, and on 29 June 2023 published an Issuer Comment, with no change to the ratings, with the Corporate Family Rating for TWUL continuing as Baa2 with a stable outlook (30 September 2022: Baa2, stable outlook) and our Securitisation Group companies' senior secured (Class A) debt rating continuing as Baa1 with stable outlook (30 September 2022: Baa1, stable outlook) and subordinated (Class B) debt rating continuing as Ba1 with stable outlook (30 September 2022: Ba1, stable outlook).

On 30 June 2023, S&P placed its ratings of the securitisation group's Class A debt (BBB) and Class B debt (BB+) on CreditWatch negative. Prior to this there had been no change to these ratings since 30 September 2022, when the ratings had a stable outlook.

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

- In May 2023, TWUF repaid a £300.0 million bond on maturity.
- In August 2023, TWUF's 364-day liquidity facilities totalling £550.0 million were renewed until August 2023 (split: £310.0 million debt service reserve and £240.0 million operations and capital maintenance reserve).
- In October 2023:
    - TWUF issued a £300.0 million Class A Bond due 2040
    - TWUL fully drew £98.5 million from a Class A loan agreement due 2029
    - TWUL fully drew £65.0 million from a Class B loan agreement due 2027
    - TWUL extended a £100.0 million RPI loan due 2025 and with an accreted principal of £144.8 million to 2033
    - TWUL extended a £125.0 million RPI loan due 2026 and with an accreted principal of £180.1 million to 2033

Bonds outstanding at 30 September 2023

Table 4 Class A and B bonds outstanding at 30 September 2023

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 30 September 2023 (£m)[4]
TWUF	GBP	84.7	0.88%	19/10/2023	A	Fixed Rate Bond	84.7
TWUF	EUR	500	0.19%	23/10/2023	A	Fixed Rate Bond	433.4
TWUF	GBP	250	1.88%	24/01/2024	A	Fixed Rate Bond	250.0
TWUF	CAD	250	2.88%	12/12/2024	A	Fixed Rate Bond	151.5
TWUF	GBP	500	4.00%	19/06/2025	A	Fixed Rate Bond	500.0
TWUF	EUR	650	4.00%	18/04/2027	A	Fixed Rate Bond	563.4
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	64.9
TWUF	USD	40	1.60%	23/12/2027	A	Fixed Rate Bond	32.8
TWUF	EUR	575	0.88%	31/01/2028	A	Fixed Rate Bond	498.4
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	46.7
TWUF	EUR	1,000	4.38%	18/01/2031	A	Fixed Rate Bond	866.8
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	498.4
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	57.7
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	109.7
TWUF	GBP	350	2.38%	22/04/2040	A	Fixed Rate Bond	350.0
TWUF	GBP	50	3.85%	15/12/2040	A	LPI Linked Bond	76.8
TWUF	GBP	500	5.50%	11/02/2041	A	Fixed Rate Bond	500.0
TWUF	GBP	50	1.98%	28/08/2042	A	RPI Linked Bond	90.8
TWUF	GBP	55	2.09%	06/10/2042	A	RPI Linked Bond	96.4
TWUF	GBP	40	1.97%	12/10/2045	A	RPI Linked Bond	53.0
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	181.6
TWUF	GBP	200	1.82%	28/08/2049	A	RPI Linked Bond	363.3
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	558.3
TWUF	GBP	300	1.68%	11/07/2055	A	RPI Linked Bond	558.3
TWUF	GBP	200	1.77%	28/08/2057	A	RPI Linked Bond	363.3
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	635.7
Total							10,955.9

The face value of Index Linked Bonds as at 30 September 2023 included accretion of £1,378.4 million.

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[4] The face value of non-GBP debt has been translated to GBP at spot rate

Net debt reconciliation

Table 5 Net debt reconciliation – 30 September 2023

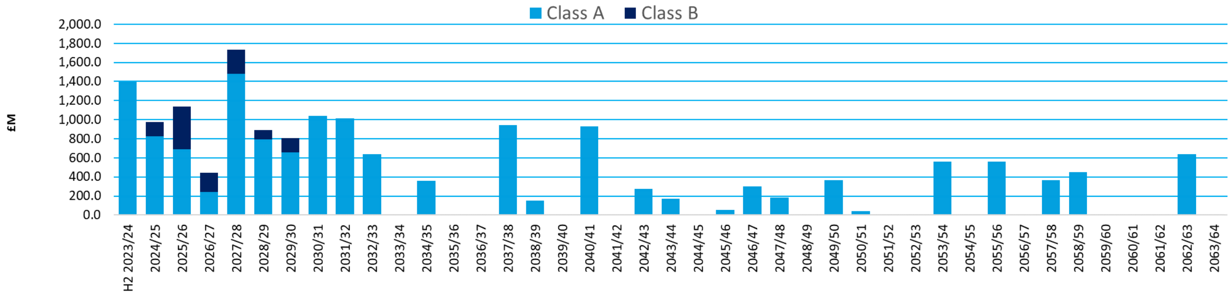
	£m
Face Value of Bonds including accretion Class A	10,705.9
Face Value of Bonds including accretion Class B	250.0
Total Face Value of Bonds including accretion	**10,955.9**
Class A USPP Notes	1,918.0
Class A RPI linked loans (including accretion of £351.0 million)	1,022.7
Accretion on Index Linked Swaps	1,028.5
Class A Floating Rate Loans	489.2
Class A Cross-currency swaps	(58.7)
Class B Loans	1,049.7
Cash and cash equivalents [5]	(891.8)
IFRS 16 Lease liability	53.6
Net Debt as per Compliance Certificate 30 September 2023	**15,567.1**
Unamortised debt issuance costs and discount	(80.2)
Subordinated amounts owed to group undertakings	5.5
Relevant derivative financial liabilities (Accretion and FX)	(969.8)
Interest payable on borrowings	196.5
Unamortised IFRS 9 transition adjustment	22.8
Cash not relevant for covenant	(3.2)
Net Debt (statutory basis) as per interim report 30 September 2023	**14,738.7**

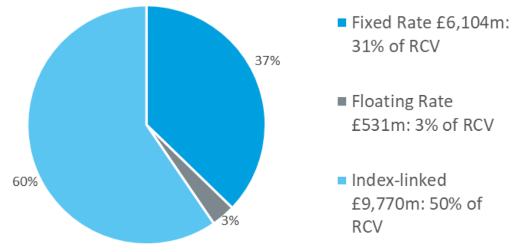
[5] Includes £895.0 million cash and cash equivalents as per the Interim report 30 September 2023 adjusted for £3.2 million cash not relevant for covenant.

Maturity profile and headroom analysis

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

At 30 September 2023, £2,325.8 million Class A RCFs were fully undrawn and £370.7 million Class B RCFs were fully drawn, with £150.0 million maturing in 2024/25 and £220.7 million in 2025/26. £198.5 million Class A and £65.0 million Class B term facilities were undrawn. The £370.7 million Class B RCF drawdowns were fully repaid and £530 million of Class A RCF was drawn during October 2023.

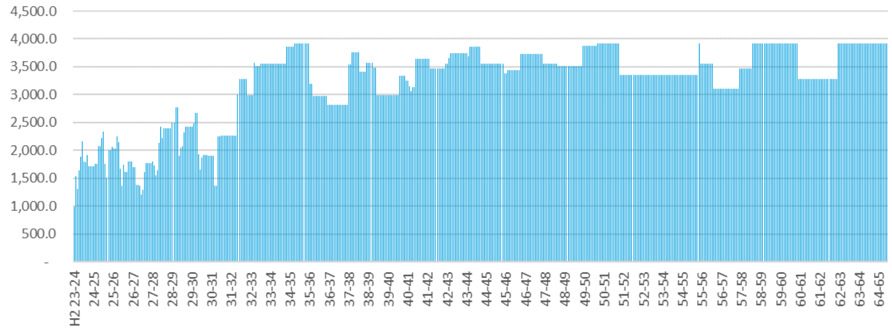




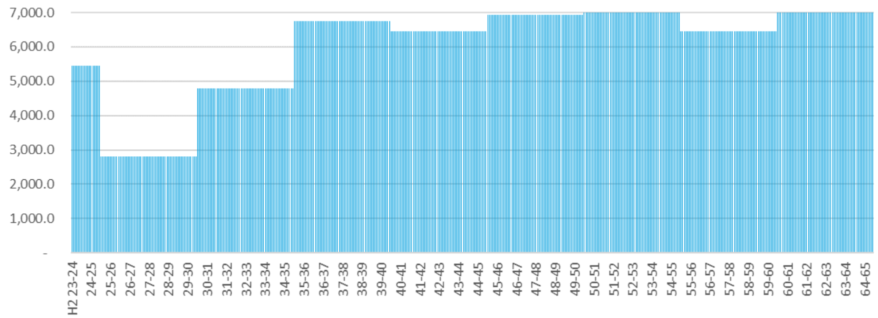
Graph 2 Covenant headroom analysis

The Securitisation Ring-fenced Group is prohibited from incurring new debt which would result in i) debt equivalent to >20% of RCV with a maturity in any 24-month period and ii) debt equivalent to >40% of RCV with a maturity in any AMP. Following a STID proposal in June 2020, RCF drawdowns as at 30 September 2023 are reflected according to the facility maturity April 2024 (£75.0 million), March 2025 (£75.0 million) and November 2025 (£220.7 million). The following charts show headroom (£ million) for both covenants.

£ 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 Group & TWUL Derivative summary valuations

Derivative type	TWUL Group MtM as at 30 September 2023 (£m)	TWUL MtM as at 30 September 2023 (£m)
Cross currency swaps	102.8	(12.6)
Interest rate swaps	(37.4)	(37.4)
Index - linked swaps	(1,270.8)	(994.3)
Total	**(1,205.4)**	**(1,044.3)**

Note: MtM = Mark to market

Foreign currency debt instruments are converted to Sterling liabilities with cross currency swaps as included below. Swaps with mutual break clauses amount to 0.8% of RCV at 30 September 2023 (versus a limit 5% of RCV).

Table 7 Cross currency swaps

Issuer	Foreign Currency	Currency Amount (m)	£m	Maturity Date	MtM as at 30 September 2023 (£m)
TWUF	EUR	500	453.2	23/10/2023	(23.1)
TWUF	USD	200	128.8	27/02/2024	34.6
TWUF	CAD	250	143.6	12/12/2024	9.1
TWUL	USD	285	200.4	22/03/2025	35.3
TWUF	USD	106	82	13/04/2026	7.4
TWUF	USD	250	161	01/03/2027	41.4
TWUF	EUR	650	576	18/04/2027	(6.4)
TWUF	USD	40	29.6	23/12/2027	3.3
TWUF	EUR	575	483.6	31/01/2028	15.7
TWUF	USD	131	101.3	13/04/2029	11.2
TWUL	USD	95	80.2	16/11/2029	(2.2)
TWUF	EUR	50	44.1	13/04/2030	(0.2)
TWUF	USD	57	44.2	12/11/2030	3.2
TWUF	EUR	1000	886.6	18/01/2031	7.9
TWUF	EUR	575	483.7	31/01/2032	11.1
TWUL	USD	256	216.1	16/11/2032	(5.2)
TWUL	USD	81	68.4	16/11/2037	(1.1)
TWUL	JPY	20,000	153.6	20/08/2038	(39.2)
Total			**4,336.4**		**102.8**

Table 8 Interest rate swaps

Issuer	Notional £m	Start Date	Maturity Date	MtM as at 30 September 2023 (£m)
Interest rate swaps (pay fixed)				
TWUL	150.0	16/03/2018	17/03/2025	4.5
TWUL	500.0	13/09/2016	14/03/2030	91.8
TWUL	300.0	14/07/2017	14/03/2030	52.2
TWUL	150.0	16/03/2018	14/03/2030	19.3
TWUL	300.0	14/03/2019	14/03/2030	44.4
TWUL	250.0	13/09/2019	14/03/2030	35.0
TWUL	400.0	16/03/2017	16/03/2030	57.7
TWUL	200.0	14/07/2017	16/03/2030	36.6
	2,250.0			**341.5**
Interest rate swaps (receive fixed)				
TWUL	500.0	24/01/2017	14/03/2030	(99.5)
TWUL	250.0	03/05/2017	14/03/2030	(50.2)
TWUL	200.0	17/07/2017	14/03/2030	(42.2)
TWUL	143.6	12/12/2017	14/03/2030	(27.6)
TWUL	350.0	22/03/2018	14/03/2030	(68.1)
TWUL	227.3	14/03/2019	14/03/2030	(42.6)
TWUL	100.0	17/07/2017	16/03/2030	(21.1)
TWUL	150.0	22/03/2018	16/03/2030	(27.6)
	1,920.9			**(378.9)**
Total	**4,170.9**			**(37.4)**

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 30 September 2023 (£m)
TWUL	300	289.5	At maturity	25/10/2024	-	(13.4)
TWUL	200	289.5	At maturity	29/10/2024	-	(12.0)
TWUL*	210	289.5	At maturity	31/10/2024	-	(11.6)
TWUL	40	289.5	At maturity	31/10/2024	-	(1.9)
TWUL	190	291.0	At maturity	02/12/2024	-	(54.9)
TWUL	20	258.8	At maturity	31/03/2026	-	(7.4)
TWUL	50	289.5	At maturity	24/01/2029	-	(13.4)
TWUL	500	289.5	At maturity	11/02/2029	-	(148.8)
TWUL	100	289.5	At maturity	22/03/2029	-	(26.6)
TWUL	200	289.5	At maturity	31/10/2029	-	(51.8)
TWUL	100	291.7	At maturity	01/11/2029	-	(28.4)
TWUL	100	291.7	At maturity	13/11/2029	-	(28.0)
TWUL	100	291.7	At maturity	19/11/2029	-	(30.2)
TWUL	250	320.2	At maturity	15/11/2032	-	(14.0)
TWUL	200	320.2	At maturity	17/11/2032	-	(20.6)
TWUL	100	320.2	At maturity	21/11/2032	-	(9.5)
TWUL	50	320.2	At maturity	22/11/2032	-	(4.8)
TWUL	50	320.2	At maturity	22/11/2032	-	(5.6)
TWUL	50	320.2	At maturity	23/11/2032	-	(5.4)
TWUL	300	320.2	At maturity	29/11/2032	-	(27.9)
TWUL	150	206.1	At maturity	28/09/2037	-	(120.4)
TWUL	250	206.1	28/09/2035	28/09/2037	maturity	(55.6)
TWUL	200	206.1	28/09/2027	28/09/2037	Every 5 years	(96.3)
TWUL	200	210.9	09/02/2032	09/02/2038	Maturity	(127.5)
TWUL	94.1	215.1	21/08/2028	20/08/2038	Every 5 years	(27.6)
TWUF	100	235.2	18/07/2032	18/07/2039	maturity	(14.3)
TWUF**	100	215.3	31/12/2024	31/12/2039	2029, maturity	(69.1)
TWUF	200	215.3	31/12/2024	31/12/2039	Every 5 years	(134.9)
TWUL	114.8	264.8	At maturity	09/04/2058	-	(50.7)
TWUF***	100	218	17/02/2025	17/02/2060	Every 5 years	(58.2)
	4,618.9					**(1,270.8)**

* Accrued Accretion to 30 September 2023 due in October 2024 was paid early in September 2023.
** 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 7.2% (versus a limit of 8% of Class A net indebtedness).

Available facilities

As at 30 September 2023, TWUL had committed facilities of £3,509.9 million (£3,139.2 million undrawn) in place. These facilities provide the necessary liquidity to fund the operations of the business for a minimum of twelve months. The committed facilities consisted of the following:

- £1,646.4 million RCF consisting of Class A £1,425.7 million (fully undrawn as at 30 September 2023) and Class B £220.7 million (fully drawn as at 30 September 2023). The Class B amount drawn was fully repaid and £530 million of the Class A amount was drawn during October 2023.
- £75.0 million Class B RCF (fully drawn as at 30 September 2023 and fully repaid during October 2023).
- £75.0 million Class B RCF (fully drawn as at 30 September 2023 and fully repaid during October 2023).
- £900.0 million Class A RCF (fully undrawn as at 30 September 2023).
- £100.0 million Class B term loan facility (fully undrawn as at 30 September 2023).
- £98.5 million Class A term loan facility (fully undrawn as at 30 September 2023) and fully drawn in October 2023.
- £65.0 million Class B term loan facility (fully undrawn as at 30 September 2023) and fully drawn in October 2023.
- £550.0 million 364-day undrawn liquidity facilities (split: £310.0 million debt service reserve and £240.0 million operations and capital maintenance reserve) renewed in August annually.

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 the 6 months to 30 September 2023 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	6 months to 30 September 2023 (£m)*	Accretion Paydowns 6 Months to 30 September 2023 (£m)*	Total Cumulative Accretion as at 30 September 2023 (£m)
Index-linked Bonds	132.7	0.4	1,378.4
Index-linked Loans	38.3	3.2	351.0
Index-linked Swaps with 5 year accretion paydowns	46.1	76.1	148.8
Index-linked Swaps with less than 10 year original maturity	47.9	59.0	95.4
Index-linked Swaps other than included above	160.0	16.8	784.3
Total	**425.0**	**155.5**	**2,757.9**

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

Cash and Authorised Investments

As at 30 September 2023, 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)	665.5	1.3	666.8
Short Term Investments (Bank Deposits)	225.0	-	225.0
Total cash and investments[6]	**890.5**	**1.3**	**891.8**

6. Dividends

We don't expect to pay dividend income to external shareholders again this year, for the seventh consecutive year, and our plans assume no dividends to shareholders until at least 2030, to support our turnaround. During the six-month period ended 30 September 2023, no dividends were paid by TWUL to Thames Water Utilities Holdings Limited ("TWUHL"), it's immediate parent company, (30 September 2022: £nil).

In October 2023, TWUL paid a dividend of £37.5 million to TWUHL. TWUHL distributed the proceeds to Thames Water Limited ("TWL"), who then distributed the proceeds to Kemble Water Finance Limited ("KWF"). KWF retained the proceeds solely to service debt obligations of its own external debt and debt of its subsidiary Thames Water (Kemble) Finance plc ("TW(K)F").

6 Includes £895.0 million cash and cash equivalents as per the financial statements, adjusted downwards by £3.2m for cash not relevant to covenant.

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.

We have successfully mobilised our waste field operations activity and implemented contracts following our water network re-bid with an outsourced scope including Developer Services and Small to Medium capital delivery projects. We have awarded to 3 new providers under these contracts which have now commenced. We finalised our Business Process Outsourcing activity in our Retail division awarding to 3 new providers to support customer communications and engagement whilst moving the majority of our call handling back to the UK.

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.

We have made adjustments to the figures referred to in the 30 September 2023 TWUL financial statements in order to arrive at the ratios below in accordance with the terms of the Common Terms Agreement.

Calculations for forward looking ratios for 31 March 2024 to 31 March 2025 and an information sheet on the additional conformed interest cover ratio calculations are included in Appendices 1 and 2 respectively.

Table 12 Senior and Class A net debt breakdown of calculation – 30 September 2023

30 September 2023 (£m)	
Senior net debt per accounts	14,738.7
Less Subordinated Amounts owed to group undertakings	(5.5)
Less accrued interest	(196.5)
Add back unamortised debt issuance costs and discount	80.2
Add relevant derivative financial liabilities (Accretion and FX)	969.8
Less IFRS 9 transition Adjustment	(22.8)
Less cash relevant for covenant	3.2
Senior net debt per compliance certificate	**15,567.1**

30 September 2023 (£m)	
Senior net debt per accounts	14,738.7
Less Class B debt	(1,299.7)
Less Lease Liability	(53.6)
Less Subordinated Amounts owed to group undertakings	(5.5)
Less accrued interest	(196.5)
Add back unamortised debt issuance costs and discount	80.2
Add relevant derivative financial liabilities (Accretion and FX)	969.8
Less IFRS 9 transition Adjustment	(22.8)
Less cash relevant for covenant	3.2
Class A net debt per compliance certificate	**14,213.8**

Table 13 Projected Conformed Net Cash Flow

	31 March 2024 (£m)
Cashflow from operations	1,346.2
Exceptional items	-
Reversal of capex creditor	-
Add back Impact of IP revenues and payments	-
Add Deferral of K	-
Conformed Net Cash Flow	1,346.2

TWUL receives interest on its £1,249.1 million (30 September 2022: £1,693.4 million) intra-group loan to TWUHL During the six months ended 30 September 2023 interest received from TWUHL was £nil (30 September 2022: £nil). 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.

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

Table 14 Depreciation – as used in additional conformed interest cover ratios

Test date	31 March 2023	31 March 2024	31 March 2025
Water and wastewater depreciation	(661.0)	(708.5)	(720.1)
Factor to convert to outturn prices	1.1208	1.2259	1.2791
Depreciation (Outturn prices)	(740.8)	(868.5)	(921.1)

We confirm that in respect of the Calculation Date on 30 September 2023, by reference to the most recent financial statements in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) to the Common Terms Agreement that the ratios are as detailed in the table below.

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

Table 15 The ratios – TWUL

Test date	31 March 2023	30 September 2023	31 March 2024	31 March 2025
Class A RAR	68.7%	72.6%	71.6%	71.9%
Conformed Senior RAR	77.4%	79.5%	79.5%	84.0%

Test date	31 March 2023	31 March 2024	31 March 2025
Conformed Class A ICR	6.11	5.83	5.65
Additional Conformed Class A Adjusted ICR	2.05	2.07	1.81
Additional Conformed Senior Adjusted ICR	1.60	1.65	1.34
Additional Conformed Class A Average Adjusted ICR	1.98	1.98	1.98
Additional Conformed Senior Average Adjusted ICR	1.53	1.53	1.53

We confirm that each of the ratios has been calculated in respect of the relevant period(s) for which it is required to be calculated under the Common Terms Agreement and has not breached the Trigger Event Ratio Levels and has not caused Paragraph 17 (Ratios) of Part 2 (Events of Default (TWUL and the Issuer)) of Schedule 6 to be breached.

IFRS 16 – Leases

Following a STID Proposal in March 2019 which was approved by the majority creditors, the definition of “Permitted Financial Indebtedness” was amended to include lease arrangements that would not have been treated as “Financial Indebtedness” prior to the adoption of IFRS 16. It is noted that the amount of Financial Indebtedness, including that under such operating leases, is subject to restriction through the Senior RAR covenant and, in addition, there is a new sub-cap for operating leases (included as part of the consent process) of 2% of RCV. At 30 September 2023 the lease liability was 0.3% of RCV.

9. Group debt structure (as at 30 September 2023)

Thames Water - Group Debt Structure at 30 September 2023

All amounts in £ millions

	Amount	Maturity
Shareholder Loan	566.2	March 2031
Shareholder Loan	515.2	March 2028

Kemble Water Holdings

Kemble Water Eurobond

Kemble Water Finance

Thames Water (Kemble) Finance PLC

Thames Water Ltd.

Thames Water Utilites Holdings Ltd

Thames Water Utilites Ltd

Thames Water Utilites Fiannce Plc

Securitisation Ring-fenced Group

	Amount	Maturity
Term Loans KWF	190.0	April 2024
Term Loans KWF	200.0	July 2025
Term Loans KWF	110.0	November 2025
Term Loans KWF	200.0	December 2025
Term Loans KWF	149.8	April 2026
Term Loans KWF	50.0	July 2027
Term Loans KWF	50.0	August 2028

	Amount	% of RCV
KWF - Total Group Debt	**17,823.7**	
KWF - Total Cash	**907.8**	
KWF - Total Group Net Debt	**16,915.9**	86.4%

	Amount	Maturity
£400m 4.625% Bond	400.0	May 2026

	Amount	
Securitisation Group - Total Class A Debt	**15,105.6**	
Securitisation Group - Total Class B Debt	**1,299.7**	
Securitisation Group - Lease Liability	**53.6**	
Securitisation Group - Total Senior Debt	**16,458.9**	
Securitisation Group - Total Cash	**891.8**	
Securitisation Group - Total Class A Net Debt	**14,213.8**	72.6%
Securitisation Group - Total Senior Net Debt	**15,567.1**	79.5%
Accretion on Index-linked swaps (limit: 8% of Class A Net Debt)	1,028.5	7.2%
Swaps with breaks (limit: 5% of RCV)	153.6	0.8%
Index-linked Debt (post swaps) in Securitisation Group (% of Total Senior Debt)	9,770.0	59.4%
Stated RCV as at 30 September 2023	19,585.5	

Class A	Amount	Maturity
Thames Water Utilities Finance Plc		
£84.7m 0.875% Bond	84.7	October 2023
€500m 0.19% Bond	433.4	October 2023
£250m 1.875% Bond	250.0	January 2024
USPP $200m Note	163.9	February 2024
CAD 250m 2.875% Bond	151.5	December 2024
£500m 4% Bond	500.0	June 2025
USPP $106m Note	86.9	April 2026
USPP $250m Note	204.9	March 2027
£45m 0.721% RPI Bond	64.9	December 2027
$40m 1.604% Bond	32.8	December 2027
£300m 3.5% Bond	300.0	February 2028
£330m 6.750% Bond	330.0	November 2028
USPP $131m Note	107.4	April 2029
USPP €50m Note	43.3	April 2030
$57m 2.06% Bond	46.7	November 2030
£250m 2.625% Bond	250.0	January 2032
£200m 6.500% Bond	200.0	February 2032
£300m 4.375% Bond	300.0	July 2034
£40m 0.75% RPI Bond	57.7	December 2034
£600m 5.125% Bond	600.0	September 2037
JPY20bn 3.28% Bond	109.7	August 2038
£350m 2.375% Bond	350.0	April 2040
£50m 3.853% LPI Bond	76.8	December 2040
£500m 5.50% Bond	500.0	February 2041
£50m 1.980% RPI Bond	90.8	August 2042
£55m 2.091% RPI Bond	96.4	October 2042
£40m 1.974% RPI Bond	53.0	October 2045
£300m 4.625% Bond	300.0	June 2046
£100m 1.846% RPI Bond	181.5	August 2047
£200m 1.819% RPI Bond	363.3	August 2049
£40m 2.442% Bond	40.0	May 2050
£300m 1.6802% RPI Bond	558.3	July 2053
£300m 1.681% RPI Bond	558.3	July 2055
£200m 1.771% RPI Bond	363.3	August 2057
£400m 7.738% Bond	400.0	April 2058
£350m 1.760% RPI Bond	635.7	August 2062
€650m 4.0% Bond	563.4	April 2027
€1,000m 4.375% Bond	866.8	January 2031
€575m 0.875% Bond	498.4	January 2028
€575m 1.25% Bond	498.4	January 2032
Accretion on RPI swaps	134.0	2029-2060
Cross currency swaps	(80.0)	2023-2032

Class A (continued)	Amount	Maturity
Thames Water Utilities Limited		
£215m RPI Term Loan	328.4	December 2023
£150m Floating rate Term Loan	150.0	February 2024
£125m Floting rate Term Loan	125.0	June 2024
£100m RPI Term Loan	145.3	February 2025
USPP $285m Note	233.6	March 2025
£125m RPI Term Loan	180.7	March 2026
USPP £216m Note	216.0	April 2028
£63m Floating rate Term Loan	51.1	March 2029
USPP £210m Note	210.0	March 2030
£63m Floating rate Term Loan	63.1	March 2031
£215m RPI Term Loan	196.2	November 2032
USPP £40m Note	40.0	March 2033
£100m RPI Term Loan	172.2	November 2043
£100m Floating rate Term Loan	100.0	May 2029
USPP $81m Note	66.4	November 2037
USPP $95m Note	77.8	November 2029
USPP $256m Note	209.8	November 2032
USPP £18m Note	18.0	November 2029
USPP £150m Note	150.0	November 2037
USPP £90m Note	90.0	November 2042
Accretion on RPI swaps	894.5	2024-2058
Cross currency swaps	21.3	2025-2038
Total Class A	**15,105.6**	

Class B	Amount	Maturity
Thames Water Utilities Finance Plc		
Revolving Credit Facility drawdown	220.7	November 2025
Revolving Credit Facility drawdown	75.0	April 2024
£200m Floating rate Term Loan	200.0	June 2026
£250m 2.875% Bond	250.0	May 2027
Revolving Credit Facility drawdown	75.0	March 2025
Thames Water Utilities Limited		
£50m 3.867% Term Loan	50.0	March 2026
£70m 3.867% Term Loan	70.0	March 2026
£20m Floating rate Term Loan	20.0	March 2026
£39m 3.918% Term Loan	39.0	March 2026
£150m Floating rate Term Loan	150.0	April 2029
£100m Floating rate Term Loan	100.0	September 2028
£50m Floating rate Term Loan	50.0	August 2025
Total Class B	**1,299.7**	
Total Senior Debt	**16,405.3**	

1. As at 30 September 2023, the Group had access to a total of £3.5 billion facilities. This included £2.7 billion Revolving Credit Facilities (£370.7 million drawn as at 30 September 2023), £263.5 million fully undrawn term loan facilities and a £550.0 million 364 day undrawn facility that is renewed annually in August.
2. Non-GBP debt has been translated at the spot rate.
3. Total Senior Debt, Total Senior Net Debt, Total Group Debt and Total Group Net Debt includes £53.6 million lease liability.
4. KWF - Total Group Debt, KWF - Total Group Net Debt includes £15.0 million payable to Thames Water Investments Limited.

We also confirm that:

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

Yours faithfully,

ALASTAIR COCHRAN

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

DAVID GREGG

Director
For and on behalf of
THAMES WATER UTILITIES FINANCE PLC

Appendix 1 Financial Ratio Calculations

Calculations for forward looking ratios for March 2024 to March 2025 have been provided to the Security Trustee and the Facility Agent as required by the CTA. This information is not however included in the published Investor Report. Secured creditors may register their interest in receiving a full version of the investor report by contacting the Security Trustee, the Facility Agent and Thames Water as appropriate.

Appendix 2 PMICR covenant information sheet

Calculations for forward looking ratios for March 2024 to March 2025 have been provided to the Security Trustee and the Facility Agent as required by the CTA. This information is not however included in the published Investor Report. Secured creditors may register their interest in receiving a full version of the investor report by contacting the Security Trustee, the Facility Agent and Thames Water as appropriate.

Appendix 3 Thames Tideway Tunnel

During the 6-month period ended 30 September 2023, TWUL continued to include costs within its bills to wastewater customers for the construction of the Thames Tideway Tunnel (TTT). 58.8 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, our revenue will increase but there will be no associated costs during the construction phase (except for potential bad debt expenses). This will increase the profits during the construction phase but not the cashflows, therefore the Directors have excluded the monies from the underlying results. The cash collected and paid over to BTL during construction represents a prepayment for the use of the TTT once the project is complete.

Progress continues in support of the Tideway construction works, with the key focus being developing the plan for the commissioning of the tunnel system including how the sites will be activated and tested to a revised date of Summer 2024. In the period, work to deliver asset modifications necessary when the tunnel system is placed into service continued their construction phases. The programme will ensure control system readiness for the commissioning of the London Tideway Tunnels System. Works on site at the necessary modifications to the inlet works structure at Beckton Sewage Treatment Works are ongoing. This project will deliver the required extension works by the end of 2023 to ensure readiness for the activation of the London Tideway Tunnel system.

BTL, which trades as Tideway, is a separate privately financed company appointed in 2015 under a separate regulatory regime and is responsible for building, commissioning, financing and maintaining the Thames Tideway Tunnel. BTL has announced that Handover is expected by end of September 2025. At the end of September 2023, all primary tunnelling and secondary lining is complete. The permanent structures that will form the new public realm, are continuing to take shape. Preparations are underway to commence commissioning in mid-2024.

Appendix 4 Kemble Water Finance

Consolidated Net Debt Reconciliation

	£m
TWUL Face Value Bonds including accretion Class A	10,705.9
TWUL Face Value Bonds including accretion Class B	250.0
TWKF Face Value Bonds	400.0
Total Book Value Bonds including accretion	**11,355.9**
Class A USPP Notes	1,918.0
Class A RPI linked loans (including accretion of £351.0 million)	1,022.7
Accretion on Index Linked Swaps	1,028.5
Class A Floating Rate Loans	489.2
Class A Cross-currency swaps	(58.7)
Class B Loans	1,049.7
KWF Floating Rate Loans (including £15.0 million intercompany loan from Non-Reg Group)	405.0
KWF Fixed Rate Loans	559.8
Less Cash and cash equivalents[7]	(907.8)
IFRS 16 Lease Liability	53.6
KWF Net Debt as per Compliance Certificate 30 September 2023	16,915.9
Subordinated loan from Kemble Water Eurobond plc (Parent)	3,100.6
Subordinated intercompany loan from Non-Reg Group	(15.0)
Unamortised debt issuance costs and discount	(87.5)
Fair Value Adjustment on acquisition to loans	110.1
Cash not relevant for covenant	(7.3)
Relevant derivative financial liabilities (Accretion and FX)	(969.8)
Interest payable on amounts owed to group undertakings	4,894.0
Interest payable on secured bank loans, private placements and other financing	223.3
IFRS 9 transition adjustment	22.8
KWF Net Debt (statutory basis) as per annual report 30 September 2023	24,187.1

[7] Includes £917.4 million cash and cash equivalents as per the Interim report 30 September 2023 adjusted for £2.3 million restricted cash and £7.3 million cash not relevant for covenant.

Credit rating

In March 2023, Fitch downgraded the Company's senior secured debt rating to B (30 September 2022: B+) and Long-Term Issuer Default Rating to B with negative outlook (30 September 2022: B+ with negative outlook). In December 2023, Moody's downgraded the senior secured debt rating of the Company's finance subsidiary, Thames Water (Kemble) Finance plc from B2 to B3 and maintained the negative outlook (30 September 2022: B1 with stable outlook). In July 2023, Moody's had downgraded the senior secured debt rating from B1 to B2, having changed the outlook to negative in March 2023.

Dividends

KWF did not pay any dividends during the six months ended 30 September 2023 (30 September 2022: £nil)

The ratios

	Default Level	31 March 2024*
Cash Flow less Depreciation		434.9
Total Interest Service		371.2
Group PMICR	1.05	1.17

	Default Level	30 September 2023
Total Net Debt		16,915.9
RCV		19,585.5
RAR	95.0%	86.4%

	Default Level	31 March 2024*
Group EBITDA		1,186.5
Total Interest Service		371.2
Interest Cover Ratio	2.0	3.20

	Lock-Up Level	30 September 2023
Obligor Interest Cover Amount (OICA)		155.1
Projected Interest Service Required Amount (PISRA)		86.1
Ratio of OICA/PISRA	OICA < PISRA	180.1%

*Forecast

Contact details

For more details, please contact us at:

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Thames Water