SUPPLEMENTARY PROSPECTUS DATED 5 JUNE 2020

THAMES WATER UTILITIES FINANCE PLC

(incorporated with limited liability in England and Wales with registered number 02403744)
(Legal Entity Identifier: 213800ESMPQ4RQ7G8351)

£10,000,000,000 Multicurrency programme for the issuance of Guaranteed Wrapped Bonds unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to financial guarantees issued by a Relevant Financial Guarantor and Guaranteed Unwrapped Bonds financing
Thames Water Utilities Limited
(incorporated with limited liability in England and Wales with registered number 2366661)

This Supplement (the "**Supplement**") to the Prospectus (the "**Prospectus**") dated 2 April 2020 which comprises a base prospectus, constitutes a supplementary prospectus for the purposes of Article 23 of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") and is prepared in connection with the multicurrency programme for the issuance of up to £10,000,000,000 Guaranteed Wrapped Bonds and Guaranteed Unwrapped Bonds (the "**Programme**") issued by Thames Water Utilities Finance plc (the "**Issuer**" or "**TWUF**") as the issuer under the Programme. Terms defined in the Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuer.

Each of the Issuer and the other Obligors accept responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer and each of the other Obligors the information contained in this Supplement is in accordance with the facts and this Supplement makes no omission likely to affect its import.

The purpose of this Supplement is to provide certain updates on the business and operations of TWUL, including as a result of Covid-19

AMENDMENTS TO THE PROSPECTUS

CHAPTER 5 – *DESCRIPTION OF THE TWU FINANCING GROUP*

On page 69 of the Prospectus, the section titled "Customer Experience" shall be amended by replacing the paragraphs titled "Household customers" and "Non-household business" with the following

"Household customers

TWUL provides around 3.4 million households with water and wastewater services and bills these domestic customers directly. A further 1.9 million households receive wastewater services from TWUL, with these domestic end users billed on TWUL's behalf by the relevant water supply company. These water supply companies are responsible for collecting payment from such domestic end users. TWUL recovers the charges for providing such wastewater only services once the relevant water supply companies have collected payment from their respective domestic customers.

Non-household business

The gross revenue from TWUL's non-household business in the year to 31 March 2019 was £369 million, out of a total gross underlying revenue of £2,070.1 million. The company provides water and wastewater services to non-household end users, however following the opening of the non-household retail market on 1 April 2017, TWUL's interaction is now with retailers operating within the market, as opposed to the end users who are customers of the retailers. Hence any bad debt associated with the non-household business relates to failure of a retailer rather than recoverability of non-household end users.

Retailers are mainly responsible for billing and collecting revenue from their non-household customers. Wholesalers such as TWUL receive payment for the provision of water and wastewater services to the end user via charges billed to retailers. Given the timing of when invoices are issued and when payment is received from its retailers, TWUL is typically owed around two months of revenue by the majority of the retailers it bills.

TWUL formally exited the retail non-household market on 1 April 2017 when it sold its non-household retail business to Castle Water. Castle Water is currently one of the largest independent business water suppliers in the UK. As of the start of May 2020, it has the second highest number of national water supply points at around 315,000, according to MOSL. On 1 April 2020 Castle Water merged with Affinity for Business (Retail) Limited, which provides water services to around 50,000 business customers throughout the UK. Typically Castle Water contributes around 14% of TWUL's total annual revenues and provides collateral to TWUL equivalent to around 30 to 50 days of non-household wholesale charges."

CHAPTER 6 – *REGULATION OF THE WATER AND WASTEWATER INDUSTRY IN ENGLAND AND WALES*

On page 120 of the Prospectus, the section titled "*Revenue Forecasting Incentive ("**RFI**")* shall be supplemented by adding the following paragraphs at the end of that section.

"Revenue approach

In any year, TWUL estimates projected demand, and sets tariffs accordingly, in order to collect the appropriate amount of revenue, as specified in the Ofwat price control. To the extent that actual volumes differ from this estimate, revenue is over or under-recovered, compared to the revenue specified in the price control.

As discussed in the section titled "*Revenue Forecasting Incentive ("**RFI**")*" above, TWUL has limited exposure to over or under-recovery in any year. Where there is over-recovery or under-recovery compared to the allowed revenue, this is reversed in a subsequent year, to leave TWUL in an overall neutral position. In terms of timing, there is a two-year lag between any over-collection or under-collection and the subsequent true-up. In this regard, under-collection in 2020/21 would therefore be offset by an increase in allowed revenue in 2022/23.

TWUL does retain some exposure to bad debt risk. Where revenue has been earned from households, but is not collected, TWUL recognises a bad debt cost – for further details see section titled "*Bad debt and non-recovery of customer debt*".

Bad debt from business customers is a cost to the non-household retailers, and not TWUL. However, TWUL does retain some bad debt exposure should a non-household retailer default. In such a scenario:

- TWUL's gross exposure reflects the amount of revenue that has not been paid for by the termination date of the retailer that defaults. The following mechanisms are in place which protect the wholesaler by reducing this gross exposure.
- To the extent that TWUL has not invoiced the retailer for the water consumed, it will be able to recover the lost revenue back within the AMP, under the revenue forecasting incentive mechanism (equivalent to the true-up mechanism where demand is reduced). Whilst this is consistent with Ofwat's publication titled "*Covid-19 and the business retail market: Proposals to address liquidity challenges and increases in bad debt*" (published on 30 April 2020), the regulations do not currently explicitly cater for such a scenario. As such, an amendment to the regulatory methodology of reconciliations will be required, necessitating Ofwat to carry out a consultation.
- To the extent TWUL has invoiced the retailer (typically around two months of revenue by the termination date of the retailer, plus any earlier invoiced amounts where payment has been deferred beyond the normal credit terms), TWUL will be able to call upon the collateral that the retailer has provided (which may typically be between 30 and 50 days of revenue).
- For the remaining exposure (i.e. the amount TWUL has invoiced, less the collateral), this will be treated as wholesale expenditure. Any such change to wholesale expenditure is shared with customers through the cost sharing mechanism, with the company bearing up to 75% of the additional cost. The customer sharing element is delivered via an end of AMP adjustment (affecting a combination of opening AMP8 RCV, and AMP8 revenue).
- TWUL's potential exposure is increased where the retailer makes use of the Ofwat proposed Covid-19 related liquidity provisions, which allow the retailer to defer some payments (see Ofwat's publication titled "*Covid-19 and the business retail market: Proposals to address liquidity challenges and increases in bad debt*", referred to above, for details). Ofwat has introduced a cap on wholesalers' net exposure due to this increase. Under the cap, the increase in TWUL's remaining net exposure will be limited to TWUL's average monthly charge to the defaulting retailer, although the precise mechanism has not yet been determined."

CHAPTER 1 – *RISK FACTORS*

On page 29 of the Prospectus, the section titled "*Financial implications of Covid-19*" shall be amended by deleting the following words at the end of the fourth paragraph of that section.

"On 30 March 2020, MOSL implemented certain changes to the non-household retailer code, including in respect of vacancies and an ability for retailers to defer up to 50% of payments in March, April and May 2020. The impact of these changes and of COVID-19 more generally is under continual assessment by TWUL but is as yet unknown at this time".

On page 29 of the Prospectus, the section entitled "*Financial implications of Covid-19*" shall be supplemented by adding the following words at the end of the sixth paragraph of that section.

"Impact of Covid-19 on TWUL's household business following lockdown measures

Following the lockdown measures put in place towards the end of March 2020, the initial Covid-19 impact on TWUL's operations has been varied. For TWUL's household business, overall domestic water consumption in its service area has increased by approximately 10-20%. However, the company has experienced a decline in cash collections from domestic customers where, for example, due to the lockdown restrictions customers have been unable to access physical paypoints to make a manual payment. During these difficult times, TWUL took the decision to support domestic customers and temporarily suspended routine cash collection activities. As lockdown restrictions have started to ease, TWUL is continuing to gradually resume its cash collection activities. Given the uncertain impact of Covid-19 on the economy and unemployment rate, there is uncertainty on whether impacted domestic customers can pay the bills they owe before the end of the current financial year 2020/21. Whilst TWUL has witnessed an increase in direct debit cancellations and a rise in payment holidays from its domestic customers, the impact of this is currently financially immaterial.

Impact of Covid-19 on TWUL's non-household business following lockdown measures

Due to the measures used to combat Covid-19, many businesses have significantly reduced their commercial activities and / or have temporarily closed. As such, overall demand for water in the non-household sector is expected to be lower than previously anticipated in 2020/21. To help support non-domestic customers during this difficult time, Ofwat and MOSL have implemented measures to relieve such customers of the pressure of having to pay water bills on time if they are seriously affected by Covid-19. This subsequently creates a cashflow issue for business retailers who are faced with a decrease in the demand for water and delayed payment from their customers and are required to pay wholesalers for water and wastewater charges, which are generally based on historic usage. To help address such liquidity issues, prevent the non-household market from collapsing, and appropriately distribute such risks between retailers and wholesalers, various code changes have been implemented – a brief description is provided below.

At the end of March 2020, Ofwat, working closely with MOSL, made two key temporary modifications to the Wholesale Retail Code ("**WRC**"). The first change temporarily allows retailers to use a 'vacant flag' in the market database so that charges are not accrued for those premises that have closed due to Covid-19.

The second change allows retailers to temporarily defer up to 50 per cent. of wholesale charges to reflect late payment by customers, although Ofwat is of the view that any deferred wholesale charges should be paid back in full, with interest, by the end of March 2021.

A third change to the WRC was also implemented on 1 May 2020. Pursuant to this change, retailers who opt into the deferral scheme would be required to make a minimum monthly payment to wholesalers based on a specified formula.

Retailers who opt into the deferral scheme will be required to make a minimum monthly payment to wholesalers of:

i) 94 per cent of money received from customers; or

ii) 60 per cent of charges due to wholesalers,

whichever is higher.

The deferral scheme only applies to wholesale charges due until the end of July 2020. Any amounts deferred should be paid back in full by the end of March 2021.

Wholesalers such as TWUL are also able to charge a maximum rate of 5.98 per cent. interest on deferred payments. In order to qualify for the deferral scheme, retailers are required to provide certain information to MOSL on a monthly basis. Ofwat has indicated that it will further review and consult on these measures in the summer of 2020. Ofwat have stated that this review will not seek to amend the requirement that all deferred wholesale charges should be paid back in full by the end of March 2021, for liquidity provided up to the end of July 2020.

The first code change lowers the amount of billable water consumption wholesalers can charge retailers, thereby reducing non-household revenues for wholesalers related to the current financial year 2020/21. The second and third code changes would most likely result in temporary delays in cash receipts with any deferment to be settled in full by the end of March 2021. As such, TWUL does not currently expect a material impact on operational cashflows when looking at 2020/21 as a whole, related to the timing of payment by retailers."

On page 39 of the Prospectus, the following new section shall be added after the section titled "*Changes in specified inflation indices*" to supplement the disclosure under the heading of "Financial risks".

"***Inflation sensitivities***

As set out in the section entitled "*Changes in specified inflation indices*" above, inflation is linked to RCV and a prolonged period of low inflation and/or deflation could thus have a negative impact on TWUL's financial performance. This could in turn impact on its ability to satisfy its obligations and financial covenants. Presently, 50 per cent. of RCV is indexed by reference to RPI with the remaining 50 per cent. indexed by reference to CPIH.

TWUL's exposure to RPI is however broadly offset by the accretion on its RPI-linked debt, which largely corresponds to the RPI-linked RCV. Accordingly, TWUL's exposure to inflation is largely through the CPIH component of RCV. Even then, such exposure to CPIH is generally over the medium term, rather than short term in a single year.

Notwithstanding the foregoing, TWUL may have some residual RPI-exposure due to the issue of timing. Specifically, TWUL's RPI-linked debt includes a lag on the RPI index, which drives accretion. For example, a change in the September 2020 RPI index would affect RCV (and therefore gearing), but without a corresponding change in the accretion due to the lag in the relevant index for RPI-linked debt."

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.