Thames Water Utilities Limited

Investor Report

30 September 2020

Important Notice

This report is being distributed in fulfilment of a document, the Common Terms Agreement (the “CTA”), which governs the Company’s obligations to its bondholders and other financial creditors. It is directed to, and intended for, existing investors in the Company. No other persons should act or rely on it. The Company makes no representation as to the accuracy of forecast information (or any other information in this report, other than set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. This report should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment in the Company. It should be noted that the Company’s auditors have not reviewed the information in this report. For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in article 69 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as it relates to bonds which are already admitted to trading on a relevant market).

This report should be read in conjunction with, and as a supplement to, the Thames Water Utilities Limited interim report for the period ended 30 September 2020. Please refer to the Thames Water website www.thameswater.co.uk for this document in full.

Contents

1. Overview for the period ended 30 September 2020 (2020/21)

1.1. Key highlights

- Robust response to the impact of Covid-19, ensuring resilient supplies and extra support for customers and communities.
- Introduction of new flexible payment plan in April 2020.
- Distributed £1.7 million in grants through our customer assistance fund to help customers with water bill debt.
- Walthamstow Wetlands kept open and safe for visitors during lockdown. Over 425,000 visits to the urban escape between April and October, a 120% increase on previous year.
- Working with the Government to create an early warning system to detect local coronavirus outbreaks before they spread after scientists established fragments of the virus’ genetic material could be identified in human waste.
- Retained five star rating with best Global Real Estate Sustainability Benchmark for Infrastructure (GRESB) survey score based on ‘ESG’ pillars – environment, social and governance.
- 758 new starters recruited during the first half of the year.
- Sarah Bentley started as company’s new – and first female – CEO on September 1, 2020.

Sarah Bentley, Thames Water CEO, said: “I am humbled by the dedication of colleagues across the sector to keep our essential service running throughout the pandemic. We’ve continued to be innovative in our thinking and supportive of our customers in financially vulnerable circumstances.

“At Thames, we have a wide-ranging change programme to improve our performance and I’m pleased that despite difficult circumstances we have made progress in the first half of the year.

“Making sure our customers get the best possible service and experience of us every time really matters. We have a substantial journey ahead to achieve this ambition and we won’t rest until we’ve made significant improvements. I’m passionate that we deliver on these expectations and are a force for good in society.”

1.2. Customer engagement

- Supporting over 33,000 extra customers through our WaterHelp social tariff, with more than 180,000 customers now receiving 50% off their water bills.
- More than 83,000 customers signed up to priority services register to help people in vulnerable circumstances during emergencies – a 10% increase since September 2019.
- Already donated £730,000 to our independent trust fund this year, which helps support customers with debt advice.
- Distributed £1.7 million in grants through our customer assistance fund to help our customers with water bill debt.
- Recruited more than 180 new customer service agents between April and October 2020 to increase customer support.

1.3. Operational performance

- Fixing an average of 1,141 leaks a week despite the impact of Covid-19 on ability to complete repairs at customers' properties and in communities.
- Cleaned over 600km of sewers and cleared more than 35,000 blockages to keep pipes flowing and prevent sewer flooding and pollutions.
- None of company's 6,700 employees needed to take a day off for a work-related injury or illness in September 2020 – a record – and throughout October.

1.4. Giving back to communities

- Maintained 3-star Environmental Performance Assessment rating, delivering on a range of performance metrics.
- Net operational emissions reduced by 11% from the same period last year, helping move closer towards our goal of net zero carbon emissions from operations by 2030, and beyond by 2040.
- Started new maintenance programmes to enhance biodiversity at over 250 operational sites.

1.5. Financial overview

- £498.8 million investment in infrastructure to improve service.
- No dividends paid – showing continued priority to put customers first during this difficult time.
- £1.03 billion total revenue.
- £246.5 million total loss before tax, down to lower water use from business customers forced to close during lockdown and 'non-cash' loss on financial instruments driven by external market factors.

1.6. Covid-19 pandemic

- In March 2020, we launched a campaign to tell the story of our key workers and why they'd still be seen out and about in communities during the national lockdown, while much of the nation was asked to 'stay at home'. Our key workers kept working around the clock in communities and at our sites to make sure our customers' taps kept flowing – every day we supply billions of litres of water to our customers and take away even more wastewater for treatment. With hand washing and good hygiene being so important to protect people from the virus, and hospitals and care homes relying on us for uninterrupted water supplies, the smooth running of our services was even more important.
- We have updated our plans to tackle the effects of Covid-19 related social-distancing and increased employee absence on important operational activities, such as repair and maintenance. It has been more difficult to fix leaks at customer properties, for example. Despite this, we have seen a positive start to the year achieving a 36.75 Ml/d reduction in average leakage, putting us in a good position as we head into winter. We are still on track to meet our end of year target.
- None of our employees have been furloughed or made redundant due to Covid-19.
- New Covid-19 safety measures have been put in place to protect everyone. These extra protocols mean it can take a bit longer to complete some of our work, but puts the health and safety of our people and customers first.

- Revenue and bad debts
    - Revenue: the adverse impact of Covid-19 on billable volumes for the non-household market and the changes in regulation in AMP7 (5 year regulatory period from 1 April 2020 to 31 March 2025) were the main contributory factors in the 6.5% decline in underlying revenue for the six-month period ended 30 September 2020. Such decreases have been partly offset by an increase in household revenue, due to the combination of more people being at, and working from home during lockdown and warm weather.
    - Bad debts: In the six-month period ended 30 September 2020, we've seen an increase in our overall bad debt cost of £7.5m to £34.9m. The increase is primarily due to the impact of Covid-19 on our cash collections offset by the implementation of a number of initiatives to reduce the bad debt. The bad debt charge is split between bad debt relating to current year bills of £23.8m which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £11.1m which is recognised within operating expenses.
- Financial covenants
    - Post maintenance interest cover ratio (PMICR): whilst Covid-19 has had a significant impact on operational cashflows for the current financial year, we expect to be in compliance with our financial covenants and estimate Class A PMICR and Senior PMICR (additional) to be 1.60x and 1.28x respectively for 2020/21 – above the Trigger Event threshold of 1.3x and 1.1x respectively. We have also assessed the impact of various downsides. Compliance with financial covenants is maintained for a scenario involving a second national lockdown more severe than the one already implemented. It is worth noting the regulatory regime provides protection against volume risk and any shortfalls in revenue are recovered in two years' time.
    - As part of our ongoing work on financial resilience, we have considered the potential impact of Covid-19 on the Group's ongoing financial performance with a particular focus on operating cashflows. As detailed in the Going Concern statement within the 2020/21 interim report, various scenarios have been assessed, all of which show the Group having significant liquidity headroom. A severe but plausible downside case has been developed which assumes a prolonged period of lockdown due to Covid-19 in excess of the lockdown measures announced by the UK Government on 31 October 2020. In this scenario, operational cashflows would be temporarily lower in 2020/21, resulting in a Trigger Event, but would recover in subsequent years.
    - Gearing: as at 30 September 2020, gearing on a covenant basis was 83.6%, below the mandated maximum of 95.0%. The increase in gearing compared to 82.3% on 31 March 2020 reflects a number of factors including an end of AMP adjustment to RCV (applied on 1 April 2020), partly offset by an £80m cash injection into TWUL, funded from incremental debt at a holding company. The net downward adjustment to RCV on 1 April 2020 was £193.3m (based on 2017/18 CPIH deflated prices), with the largest component being a sector-wide RCV reduction relating to an inflation mismatch within the 2010 to 2015 regulatory period Capital Incentive Scheme. Due to the lower than expected outturn for inflation, gearing is higher than would otherwise have been the case. This is partly offset by lower accretion on RPI-linked debt and swaps, however there is a timing effect due to a lag in referenced RPI indices. Based on latest inflation forecasts and RCV growth, we currently forecast gearing to have reduced below 83% by the end of the financial year.

2. Regulatory and legal update

2019 Price review

We have completed our price review process with Ofwat to agree our business plan for the 2020 to 2025 regulatory period. While it's a very challenging plan, it's important we maintain our focus on our improving trajectory, work collaboratively with our regulator and provide certainty for the next five years.

Appropriate investment in our water network will require us spending more than we have been allowed by Ofwat, which is something our Board and external shareholders support.

As we move through the next regulatory period and the implementation of our plan for the next five years, we have set near-term priorities to help deliver our performance commitments.

As part of the price review process for AMP6, Ofwat proposed a 'Totex sharing mechanism' for water companies, under which approximately half of any cumulative Totex under or overspend compared to the Ofwat allowance, would be shared with customers, through adjustments to their bills after 2020.

As part of the PR19 Final Determination, Ofwat confirmed the 1 April 2020 adjustment to apply to RCV in respect of past outcome and delivery incentive (ODI) and totex performance, land sales and other items including IFRS16. See Financial covenants section on page 6 for more information.

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 relate 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 has responded to three separate notices asking a number of questions with the last set having been responded to in late September 2020. Ofwat discussed the case with TWUL on 13 August during a remote meeting and there was a follow up call with them on 29 September to discuss various discrete aspects in connection with the notices from Ofwat and asking some further questions which TWUL has now answered. On 30 October, TWUL received some follow on questions which it has also answered. Ofwat wrote further to TWUL on 25 November to summarise the position so far and TWUL and Ofwat have agreed to discuss the case regularly over the coming weeks.

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 to be returned to customers. This money comes solely from Thames' shareholders and is reflected in customer bills for 2019/20. TWUL has been publishing its performance each month in tackling leaks and has appointed an independent monitor to certify the information in its monthly leakage reports. TWUL has also committed to increasing its customer engagement initiatives on leakage.

The undertakings also included a commitment to provide six monthly reports to Ofwat on compliance with the undertakings. To date, five reports have been submitted, in November 2018, May 2019, November 2019, May 2020 and November 2020. The undertaking to achieve a leakage level of 606Ml/d in 2019/20 was complied with, with leakage reported at 595Ml/d.

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 three sets of court proceedings (served in April and June 2020) commenced by different groups of Property Search Companies ("PSCs") seeking refunds of fees paid for property search data, including CON29DW searches, from 1 January 2005 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, at a lower cost than that charged. The position is replicated across all other Water & Sewerage Companies in England and Wales and the claim is a collective action brought by those different groups of PSCs against the industry. TWUL is aware of at least one further group of potential PSC claimants who have intimated claims of a similar nature but have yet to serve any court proceedings. We are defending these claims, as are all the other water and sewage companies in England and Wales, who are aligned with our position. The claims have been threatened for multiple years and we are investigating our options now that proceedings have been commenced. However the claims are at too early a stage to provide further commentary on the merits or otherwise of them or any effect on the financial position of TWUL.

RPI reform

In November 2020 the UK Government announced that RPI reform will not take place until after February 2030, and the UK Statistics Authority's preferred method of amending the calculation of RPI is to align with CPIH.

The reform of RPI is expected to impact certain long-term financial assets and liabilities held by the Group including borrowings, swaps, pension assets, pension liabilities as well as certain regulatory mechanisms. Management will continue to monitor the financial impact of this and any further announcements.

3. Financing

TWUL raises debt either directly or through its wholly owned financing subsidiary, Thames Water Utilities Finance plc ("TWUF") which was re-registered as a public limited liability company on 31 August 2018.

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+ (negative)
TWUF – Class B Issuer Rating	Ba1 (stable)	BBB- (negative)

In July 2020, Moody's completed its periodic review and re-affirmed their March 2020 assignment of Thames Water Utilities Limited's Corporate Family Rating ("CFR") as Baa2 with stable outlook (30 September 2019: Baa1 with negative outlook). Moody's also re-affirmed their March 2020 assignment of Thames Water Utilities Limited's senior secured (Class A) debt rating as Baa1 with stable outlook (30 September 2019: A3 with negative outlook) and subordinated (Class B) debt rating as Ba1 with stable outlook (30 September 2019: Baa3 with negative outlook).

In February 2020, S&P affirmed Thames Water Utilities Limited's credit rating of BBB+ and BBB- (30 September 2019: BBB+ & BBB-) in respect of senior secured (Class A) debt and subordinated (Class B) debt respectively, with negative outlook (30 September 2019: negative outlook).

These investment grade credit ratings continue to enable Thames Water to access efficiently priced debt to fund the investment programme, which is an important factor in keeping bills affordable for our customers.

i) Recent financing activity

In April 2020, TWUF issued a 20-year £350.0 million Class A bond

In May 2020, TWUF issued a 30-year £40.0 million Class A bond and signed a 3.5 year £110.0 million Class A Term Facility. The facility was subsequently cancelled in October 2020 on issuance of new Class A debt.

In August 2020, TWUL's 364-day liquidity facilities totalling £550.0 million were renewed until August 2021 (split: £370.0 million debt service reserve and £180.0 million operations and capital maintenance reserve).

In September 2020, TWUF drew the remaining £150.0 million of the £300.0 million 3.5-year Class B term loan facility signed in December 2019.

In October 2020, TWUF issued a 3-year £84.7 million Class A bond and a 3-year €400.0 million (equivalent to £362.8 million) Class A bond.

In November 2020, TWUF issued a €100.0 million (equivalent to £90.4 million) Class A bond and a 10-year $57.0 million (equivalent to £44.2 million) Class A bond.

In November 2020, TWUF signed £75.0 million Class B Revolving Credit Facility with an initial drawdown date in April 2021.

In November 2020, TWUF also extended £1,437.1 million of its £1,646.4 million, main Revolving Credit Facility "RCF" by one year to 30 November 2025. The RCF includes £1,432.1 million designated as a Class A facility (£1,251.4 million extended to 30 November 2025) and £214.3 million designated as a Class B facility (extended to 30 November 2025), a total of £1,646.4 million. The margin on the facilities, where drawn, includes an element linked to our annual performance against an external Environmental, Social and Governance score, as assessed by our participation in the Global Real Estate Sustainability Benchmark (GRESB) for Infrastructure survey score. In 2020 we achieved a score of 89 out of 100, resulting in a reduction in the margin payable on drawdowns from the RCF and, any savings will be put towards a charitable fund.

Note: Kemble Water Finance Limited issued £50.0 million through a note purchase agreement in July 2020, maturing in July 2027, and issued a further £50.0 million through a note purchase agreement in August 2020, maturing in August 2028. Out of the £100.0 million proceeds, £80.0 million were lent internally and used to repay intercompany borrowings owed to TWUL[1].

[1] This was effected via a £58.8 million principal repayment of the intercompany loan due to Thames Water Utilities Limited by Thames Water Utilities Holdings Limited, with the remainder used to pay the accrued interest associated with that intercompany loan.

ii) Bonds outstanding at 30 September 2020

Table 2 Class A and B bonds outstanding at 30 September 2020

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value incl. Accretion at 30 Sep 2020 (£m)
TWUF	GBP	225	6.59%	20/04/2021	A	Fixed Rate Bond	225.0
TWUF	GBP	175	3.38%	21/07/2021	A	RPI Linked Bond	291.6
TWUF	EUR	113	2.30%	18/07/2022	A	CPI Linked Bond	111.7
TWUF	GBP	300	2.38%	03/05/2023	B	Fixed Rate Bond	300.0
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	145.3
TWUF	GBP	500	4.00%	19/06/2025	A	Fixed Rate Bond	500.0
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	51.0
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	GBP	300	5.75%	13/09/2030	B	Fixed Rate Bond	300.0
TWUF	GBP	250	2.63%	24/01/2032	A	Fixed Rate Bond	250.0
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	45.3
TWUF	GBP	600	5.13%	28/09/2037	A	Fixed Rate Bond	600.0
TWUF	JPY	20,000	3.28%	20/08/2038	A	Fixed Rate Bond	146.6
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	67.4
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	70.6
TWUF	GBP	55	2.09%	06/10/2042	A	RPI Linked Bond	75.8
TWUF	GBP	40	1.97%	12/10/2045	A	RPI Linked Bond	46.4
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	141.2
TWUF	GBP	200	1.82%	28/08/2049	A	RPI Linked Bond	282.5
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	450.3
TWUF	GBP	300	1.68%	11/07/2055	A	RPI Linked Bond	450.3
TWUF	GBP	200	1.77%	28/08/2057	A	RPI Linked Bond	282.5
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	494.4
Total							**8,547.9**

The face value of Index Linked Bonds as at 30 September 2020 included accretion of £858.5 million.
The face value of non-GBP debt has been translated at the spot rate.

iii) Net debt reconciliation

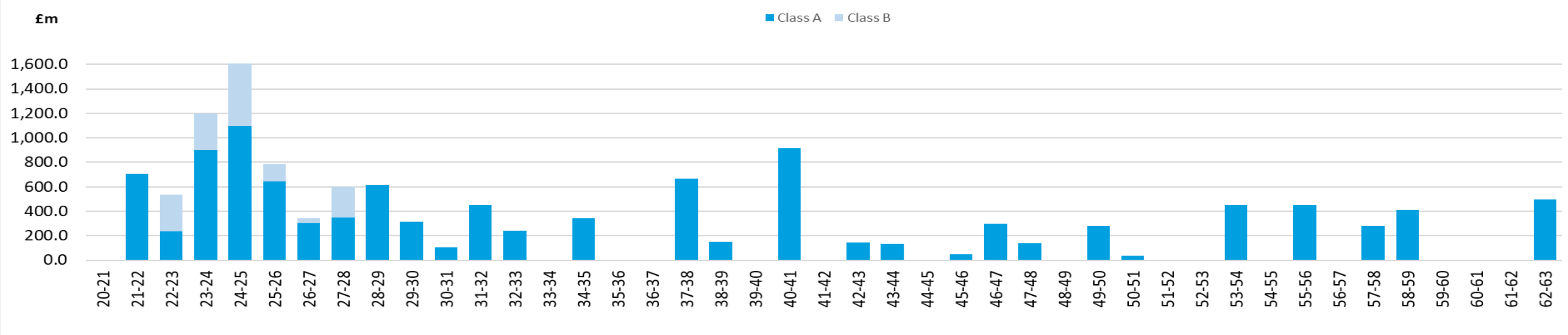
Table 3 Net debt reconciliation – 30 September 2020

	£m
Face Value of Bonds including accretion Class A	7,697.9
Face Value of Bonds including accretion Class B	850.0
Total Face Value of Bonds including accretion	**8,547.9**
Class A USPP Notes	1,422.8
Class A RPI linked loans (including accretion of £158.6 million)	947.0
Accretion on Index Linked Swaps	253.9
Class A Floating Rate Loans	1,014.2
Class A Cross-currency swaps	(101.5)
Class B Loans	693.3
Less Cash and cash equivalents	(500.1)
Cash not relevant for covenant	1.8
IFRS 16 Lease liability	64.0
Net Debt as per Compliance Certificate 30 September 2020	**12,343.3**
Unamortised debt issuance costs and discount	(74.0)
Amounts owed to group undertakings	5.5
Relevant derivative financial liabilities (Accretion and FX)	(152.4)
Interest payable on borrowings	129.8
IFRS 9 transition adjustment	24.8
Cash not relevant for covenant	(1.8)
Net Debt (statutory basis) as per interim report 30 September 2020	**12,275.2**

iv) Maturity profile and headroom analysis

As at 30 September 2020

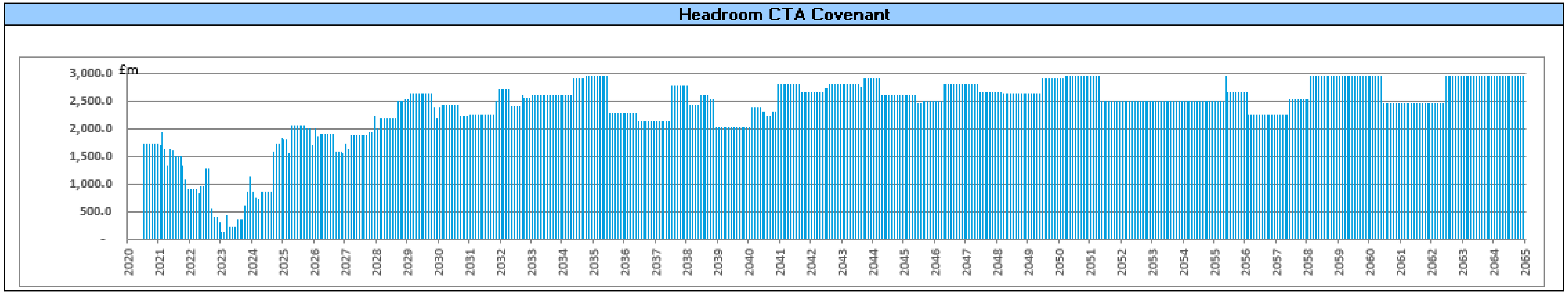
Graph 1 Debt maturity profile



At 30 September 2020, £500 million of the £1,432.1 million Class A revolving credit facility (RCF) was drawn and the full £214.3 million of the Class B RCF was drawn, both £500m and £214.3m, included under year 24-25 above, were repaid during October and November 2020.

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 are reflected according to the facility maturity of November 2024.



v) 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 4 Group & TWUL Derivative summary valuations

Derivative type	Group MtM as at 30 Sep 2020 (£m)	TWUL MtM as at 30 Sep 2020 (£m)
Cross currency swaps	73.8	(25.1)
Interest rate swaps	(170.2)	(170.2)
Index - linked swaps	(910.0)	(474.8)
Total	**(1,006.4)**	**(670.1)**

Foreign currency debt instruments are converted to Sterling liabilities with cross currency swaps as illustrated below. Swaps with mutual break clauses amount to 1.0% of notional at 30 September 2020 (versus a limit 5% of RCV).

Table 5 Cross currency swaps

Issuer	Foreign Currency	Currency Amount (m)	£m	Maturity Date	MtM as at 30 Sep 2020 (£m)
TWUF	USD	150	96.6	28/02/2022	19.8
TWUF	EUR	113	100	18/07/2022	2.3
TWUL	USD	55	38.7	22/03/2023	5.3
TWUF	USD	200	128.8	27/02/2024	27.1
TWUF	CAD	250	143.6	12/12/2024	3.6
TWUL	USD	285	200.4	22/03/2025	32.5
TWUF	USD	106	82.0	13/04/2026	4.6
TWUF	USD	250	161.0	01/03/2027	33.9
TWUF	USD	131	101.3	13/04/2029	6.8
TWUF	EUR	50	44.1	13/04/2030	0.8
TWUL	JPY	20,000	153.6	20/08/2038	(62.9)
Total			**1,250.1**		**73.8**

Table 6 Interest rate swaps

Issuer	Notional £m	Start Date	Maturity Date	MtM as at 30 Sep 2020 (£m)
Forward starting interest rate swaps (pay fixed)				
TWUL	150.0	16/03/2018	17/03/2025	(21.6)
TWUL	500.0	13/09/2016	14/03/2030	(45.7)
TWUL	300.0	14/07/2017	14/03/2030	(35.6)
TWUL	150.0	16/03/2018	14/03/2030	(26.6)
TWUL	300.0	14/03/2019	14/03/2030	(44.3)
TWUL	250.0	13/09/2019	14/03/2030	(40.3)
TWUL	400.0	16/03/2017	16/03/2030	(61.6)
TWUL	200.0	16/07/2017	16/03/2030	(20.6)
	2,250.0			**(296.3)**
Interest rate swaps (receive fixed)				
TWUL	500.0	24/01/2017	14/03/2030	29.3
TWUL	250.0	03/05/2017	14/03/2030	14.1
TWUL	200.0	17/07/2017	14/03/2030	10.7
TWUL	143.6	12/12/2017	14/03/2030	9.8
TWUL	350.0	22/03/2018	14/03/2030	25.5
TWUL	227.3	14/03/2019	14/03/2030	18.2
TWUL	100.0	17/07/2017	16/03/2030	5.9
TWUL	150.0	22/03/2018	16/03/2030	12.6
	1,920.9			**126.1**
Total	**4,170.9**			**(170.2)**

Table 7 Index linked swaps

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

Issuer	Notional £m	Base RPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 30 Sep 2020 (£m)
TWUL	300	289.5	At maturity	25/10/2024	-	5.3
TWUL	200	289.5	At maturity	29/10/2024	-	(0.6)
TWUL	250	289.5	At maturity	31/10/2024	-	(0.6)
TWUL	190	291.0	At maturity	02/12/2024	-	(0.4)
TWUL	20	258.8	At maturity	31/03/2026	-	(5.2)
TWUL	50	289.5	At maturity	24/01/2029	-	(0.1)
TWUL	500	289.5	At maturity	11/02/2029	-	1.2
TWUL	100	289.5	At maturity	22/03/2029	-	(1.4)
TWUL	200	289.5	At maturity	31/10/2029	-	(1.0)
TWUL	100	291.7	At maturity	01/11/2029	-	(2.1)
TWUL	100	291.7	At maturity	13/11/2029	-	(1.2)
TWUL	100	291.7	At maturity	19/11/2029	-	(1.8)
TWUL	150	206.1	At maturity	28/09/2037	-	(117.2)
TWUL	250	206.1	28/09/2023	28/09/2037	12 years, maturity	(175.7)
TWUL	200	206.1	28/09/2022	28/09/2037	Every 5 years	(86.1)
TWUL	200	210.9	09/02/2032	09/02/2038	Maturity	(54.6)
TWUL	94.1	215.1	20/08/2023	20/08/2038	Every 5 years	(24.4)
TWUF	100	235.2	18/07/2022	18/07/2039	10 years, maturity	(53.4)
TWUF*	100	215.3	30/06/2020	31/12/2039	2024, 2029, maturity	(67.4)
TWUF	200	215.3	31/12/2024	31/12/2039	Every 5 years	(182.4)
TWUL	114.8	264.8	At maturity	09/04/2058	-	(8.9)
TWUF	100	218	17/02/2025	17/02/2060	Every 5 years	(144.2)
	3,618.9					**(922.2)**

The following EUR CPI linked swap was entered into on 11 July 2011 to convert the coupon on a EUR bond maturing in July 2022.

Issuer	Notional €m	Base CPI	Next Accretion Payment Date	Maturity Date	Further Payments Profile	MtM as at 30 Sep 2020 (£m)
TWUF	113.0	96.3	At maturity	18/07/2022	-	12.2
	113.0					**12.2**

None of the index linked swaps contain break clauses. Accretion as a percentage of Class A net indebtedness is 2.36% (versus a limit of 8% of Class A net indebtedness).

vi) Available facilities

As at 30 September 2020, TWUL had committed facilities of £2,306.4 million (£1,592.1 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 revolving credit facility expiring November 2024, including Class A £1,432.1 million (£500.0 million drawn as at 30 September 2020) and Class B £214.3 million (fully drawn as at 30 September 2020). The amounts drawn were repaid during October and November 2020. As previously noted, £1,437.1 million of the £1,646.4 million Revolving Credit Facility was extended by one year to 30 November 2025.
- £550.0 million 364-day undrawn liquidity facilities (split: £370.0 million debt service reserve and £180.0 million operations and capital maintenance reserve).
- £110.0 million undrawn Class A term facility. The facility was subsequently cancelled in October 2020 on issuance of new Class A debt in October 2020.

vii) Counterparty rating requirements

There are minimum credit ratings requirement for TWUL 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 additionally required to hold a minimum long term rating from Moody's of A2. Hedge Counterparties losing the minimum rating requirement must post collateral to TWUL or replace themselves as counterparty.

NatWest currently remains as Account Bank and Standstill Cash Manager and meets the minimum rating requirement.

viii) Accretion charge

The income statement charge for the 6 months to 30 September 2020 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 8 Accretion charge

Instrument	6 Months to Sep 2020 (£m)	Accretion Paydowns 6 Months to Sep 2020 (£m)	Total Cumulative Accretion (£m)
Index-linked Bonds	12.6	0.2	858.5
Index-linked Loans	12.0	1.1	158.6
Index-linked Swaps	18.8	15.3	225.3
Index-linked Swaps with 5 year accretion paydowns	6.2	-	28.6
Total	**49.6**	**16.6**	**1,271.0**

ix) Cash and Authorised Investments

As at 30 September 2020, the following cash and cash equivalent investments were held.

Table 9 Cash and Authorised Investments

Counterparty type	TWUL (£m)	TWUF (£m)	Total (£m)
Cash and Cash Equivalents (Including AAA Money Market Funds)	495.9	2.4	498.3
Short Term Investments (Bank Deposits)	-	-	-
Total cash and investments	**495.9**	**2.4**	**498.3**

4. Dividends

No distributions were made to external shareholders (30 September 2019: £nil). No dividends were paid to TWUL's immediate parent company, Thames Water Utilities Holdings Limited ("TWUHL") (30 September 2019 £28.0 million).

5. 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.

6. 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 amounts referred to in the 30 September 2020 TWUL financial statements in order to arrive at the ratios below in accordance with the terms of the Common Terms Agreement.

Calculations for 31 March 2020 and forward looking ratios for 31 March 2021 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 10 Senior and Class A net debt – breakdown of calculation as at 30 September 2020

Senior net debt

30 September 2020 (£m)	
Senior net debt per accounts	**12,275.2**
Less Amounts owed to group undertakings	(5.5)
Less accrued interest	(129.8)
Add back unamortised debt issuance costs	74.0
Add relevant derivative financial liabilities (Accretion and FX)	152.4
Less IFRS 9 transition Adjustment	(24.8)
Add back cash not relevant for covenant	1.8
Senior net debt per compliance certificate	**12,343.3**

Class A net debt

30 September 2020 (£m)	
Senior net debt per accounts	**12,275.2**
Less Class B debt	(1,543.3)
Less Lease Liability	(64.0)
Less Amounts owed to group undertakings	(5.5)
Less accrued interest	(129.8)
Add back unamortised debt issuance costs	74.0
Add relevant derivative financial liabilities (Accretion and FX)	152.4
Less IFRS 9 transition Adjustment	(24.8)
Add back cash not relevant for covenant	1.8
Class A net debt per compliance certificate	**10,736.0**

Table 11 Forecast Conformed Net Cash Flow

	31 March 2021 (£m)
Cashflow from operations	**902.1**
Exceptional items	15.3
Reversal of capex creditor	-
Add back Impact of IP revenues and payments	-
Add Deferral of K	-
Conformed Net Cash Flow	**917.4**

TWUL receives interest on its £1,693.4 million (September 2019: £1,752.2 million) intra-group loan to TWUHL. During the six months ended 30 September 2020 £21.2 million interest was received from TWUHL (30 September 2019: £27.3 million). For the calculation of covenant interest cover ratios, TWUL excludes the interest it receives on this loan from the calculation of net interest paid,.

For the purpose of this calculation the tax effect of eliminating the intercompany loan interest 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 CCD and IRC 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 12 Depreciation

Depreciation – as used in additional conformed interest cover ratios

Test date	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Water and wastewater depreciation	(611.1)	(639.2)	(660.9)	(708.4)	(720.2)
Factor to convert to outturn prices	1.0463	1.0652	1.0858	1.1075	1.1296
Depreciation (Outturn prices)	(639.4)	(680.9)	(717.6)	(784.6)	(813.5)

We confirm that in respect of the Calculation Date on 30 September 2020, 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 13 The ratios – TWUL

Test date	31 March 2020	30 September 2020	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Class A RAR	72.4%	72.7%	71.9%	73.4%	71.7%	72.4%	71.9%
Conformed Senior RAR	82.3%	83.6%	82.6%	82.1%	80.9%	81.3%	80.6%

Test date	31 March 2020	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
Conformed Class A ICR	3.94	5.28	4.83	5.85	5.51	6.29
Additional Conformed Class A Adjusted ICR	2.02	1.60	2.13	2.74	2.36	2.85
Additional Conformed Senior Adjusted ICR	1.79	1.28	1.80	2.20	1.94	2.36
Additional Conformed Class A Average Adjusted ICR	1.91	2.16	2.41	2.65	2.65	2.65
Additional Conformed Senior Average Adjusted ICR	1.62	1.76	1.98	2.17	2.17	2.17

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.

Accounting Change

On 14 July 2020 we notified the Security Trustee of an Accounting Change as, under the Common Terms Agreement, there was a material change to the basis on which TWUL's audited financial statements are prepared.

Leak detection is an activity conducted to proactively identify improvements to our water network through pipe repair or replacement. Since the transition to IFRS in 2015/16, 100% of our leak detection costs have been classified as operating expenditure.

Following a detailed review of cost classification by management during 2019/20, it has been determined that certain elements of our leak detection activity are enabling works for our water network capital programme and therefore meet the criteria for capitalisation.

This has resulted in a change of accounting policy and therefore a restatement of our 2018/19 comparative figures within the 2019/20 financial statements has been presented to allow meaningful year-on-year comparison. See Investor report for the year ended 31 March 2020 for the effect of the accounting change on 31 March 2020 ratios.

Following discussions with the Security Trustee, no amendments to the CTA are required as a result of the Accounting Change.

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 2020 the lease liability was 0.4% of RCV.

7. Group debt structure (as at 30 September 2020)

Thames Water - Group Debt Structure at 30 September 2020

All amounts in £ millions

Kemble Water Holdings

Kemble Water Eurobond

	Amount	Maturity
Shareholder Loan	310.4	March 2021

Kemble Water Finance

	Amount	Maturity
Term Loans KWF	75.0	July 2022
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	**14,041.4**	
KWF - Total Cash	**513.8**	
KWF - Total Group Net Debt	**13,527.6**	91.7%

Thames Water (Kemble) Finance PLC

	Amount	Maturity
£175m 5.875% Bond	175.0	July 2022

Thames Water Ltd.

Thames Water Utilites Holdings Ltd

Thames Water Utilities Ltd

Thames Water Utilites Fianance Plc

Securitisation Ring-fenced Group

	Amount	
Securitisation Group - Total Class A Debt	**11,234.3**	
Securitisation Group - Total Class B Debt	**1,543.3**	
Securitisation Group - Lease Liability	**64.0**	
Securitisation Group - Total Senior Debt	**12,841.6**	
Securitisation Group - Total Cash	**498.3**	
Securitisation Group - Total Class A Net Debt	**10,736.0**	72.7%
Securitisation Group - Total Senior Net Debt	**12,343.3**	83.6%
Accretion on Index-linked swaps (limit: 8% of Class A Net Debt)	253.8	2.4%
Swaps with breaks (limit: 5% of RCV)	153.6	1.0%
Index-linked Debt (post swaps) in Securitisation Group (% of Total Senior Debt)	7,578.2	59.0%
Stated RCV as at 30 September 2020	14,759.8	

Class A	Amount	Maturity
Thames Water Utilities Finance Plc		
£225m 6.590% Bond, Ser. 41	225.0	April 2021
£175m 3.375% RPI Bond, Ser. 37	291.6	July 2021
USPP $150m Note	116.2	February 2022
Series 13 €113m 2.30% CPI Bond	111.7	July 2022
Series 21 £250m 1.875% Bond	250.0	January 2024
USPP $200m Note	154.9	February 2024
Revolving Credit Facility drawdown	500.0	November 2024
CAD 250m 2.875% Bond	145.3	December 2024
Series 16 £500m 4% Bond	500.0	June 2025
USPP $106m Note	82.1	April 2026
USPP $250m Note	193.6	March 2027
Series 18 £45m 0.721% RPI Bond	51.0	December 2027
Series 19 £300m 3.5% Bond	300.0	February 2028
£330m 6.750% Bond, Ser. 11	330.0	November 2028
USPP $131m Note	101.4	April 2029
USPP €50m Note	45.4	April 2030
Series 22 £250m 2.625% Bond	250.0	January 2032
£200m 6.500% Bond, Ser. 22	200.0	February 2032
Series 14 £300m 4.375% Bond	300.0	July 2034
Series 17 £40m 0.75% RPI Bond	45.3	December 2034
£600m 5.125% Bond, Ser. 44	600.0	September 2037
Series 3 JPY20bn 3.28% Bond	146.6	August 2038
Series 26 £350m 2.375% Bond	350.0	April 2040
Series 4 £50m 3.853% LPI Bond	67.4	December 2040
Series 12 £500m 5.50%Bond	500.0	February 2041
Series 1 A5 £50m 1.980% RPI Bond	70.6	August 2042
Series 6 £55m 2.091% RPI Bond	75.8	October 2042
Series 10 £40m 1.974% RPI Bond	46.4	October 2045
Series 15 £300m 4.625% Bond	300.0	June 2046
Series 1 A4 £100m 1.846% RPI Bond	141.2	August 2047
Series 1 A3 £200m 1.819% RPI Bond	282.5	August 2049
Series 27 £40m 2.442% Bond	40.0	May 2050
£300m 1.6802% RPI Bond, Ser. 43	450.3	July 2053
£300m 1.681% RPI Bond, Ser. 42	450.3	July 2055
Series 1 A2 £200m 1.771% RPI Bond	282.5	August 2057
Series 20 £400m 7.738% Bond	400.0	April 2058
Series 1 A1 £350m 1.760% RPI Bond	494.4	August 2062
Accretion on RPI swaps	18.6	2022-2060
Cross currency swaps	(84.2)	2022-2030

Class A (continued)	Amount	Maturity
Thames Water Utilities Limited		
£75m RPI Term Loan	92.7	December 2021
£50m Floting rate Term Loan	50.0	June 2022
USPP $55m Note	42.6	March 2023
£215m RPI Term Loan	258.1	December 2023
£150m Floating rate Term Loan	150.0	February 2024
£125m Floting rate Term Loan	125.0	June 2024
£100m RPI Term Loan	114.2	February 2025
USPP $285m Note	220.7	March 2025
£125m RPI Term Loan	142.1	March 2026
£63m Floating rate Term Loan	63.1	March 2027
USPP £216m Note	216.0	April 2028
£63m Floating rate Term Loan	63.1	March 2029
USPP £210m Note	210.0	March 2030
£63m Floating rate Term Loan	63.1	March 2031
£215m RPI Term Loan	204.5	November 2032
USPP £40m Note	40.0	March 2033
£100m RPI Term Loan	135.3	November 2043
Accretion on RPI swaps	235.2	2026-2058
Cross currency swaps	(17.3)	2023-2038
Total Class A	**11,234.3**	

Class B	Amount	Maturity
Thames Water Utilities Finance Plc		
Series 22 £300m 2.375% Bond	300.0	May 2023
£300m Floating rate Term Loan	300.0	June 2023
Revolving Credit Facility drawdown	214.3	November 2024
Series 23 £250m 2.875% Bond	250.0	May 2027
Series 9 £300m 5.75% bond	300.0	September 2030
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	May 2026
Total Class B	**1,543.3**	
Total Senior Debt	**12,777.6**	

1. As at 30 September 2020, the Group had access to a total of £2.4 billion facilities. This included a £1.6 billion Revolving Credit Facility (£714.3 million drawn as at 30 Septmeber 2020), a £550.0 million 364 day undrawn facility that is renewed annually in August, a £110.0 million Class A undrawn facility which was cancelled in October 2020 as new Class A debt was issued and a £110.0 million undrawn HoldCo facility.
2. Non-GBP debt has been translated at the spot rate

We also confirm that:

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

Yours faithfully,

BRANDON RENNET

Chief Financial Officer and Director

For and on behalf of

THAMES WATER UTILITIES LIMITED

TOM BOLTON

Director

For and on behalf of

THAMES WATER UTILITIES FINANCE PLC

Appendix 1 Financial Ratio Calculations

Calculations for forward looking ratios for March 2021 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 2021 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 six months to 30 September 2020 TWUL continued to include costs within its bills to wastewater customers for the construction of the Thames Tideway Tunnel (TTT). £35.9 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.

The Tideway Integration Group (TIG) has worked collaboratively with TTT. COVID restrictions have had a significant impact on the activities planned and completed in the year. The programme has been safely suspended and successfully remobilised with all current activities progressing under COVID safe arrangements. Development is ongoing relating to asset readiness of Thames assets in preparation for the Tunnel commissioning which is planned for the third quarter of 2023. TIG continues to work with key stakeholders, including the Environment Agency, with the current focus being around new reporting to support benefit realisation monitoring for London Tideway Tunnels system.

BTL's Key Dates and Estimate at Completion (EAC) were revised in the first quarter to cater for the forecast impact of Covid-19 on the delivery of the works. Tideway confirmed that there will be no change to the estimated £20-25 annual cost range for Thames Water billpayers. The Start of Commissioning is forecast to commence in September 2023 and Handover in March 2025, and this represents a c. nine months delay against that reported in Tideway's 2020/21 Business Plan. Tideway has continued to make good progress and construction activity on the project is now over 60% complete. Tideway have one tunnel boring machine (TBM) currently tunnelling with the last two of the six to start tunnelling in the second half of this financial year. Tideway have successfully excavated 19 shafts with only two remaining. The commencement of secondary lining works on the West and Central contracts are forecast to commence in the second half of this year and are key activities that support the critical path to commissioning.

Contact details

For more details please contact us at:

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