Thames Water Utilities Limited

Including Kemble Water Finance

Investor Report

31 March 2017

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 financial statements for the period ended 31 March 2017. Please refer to the Thames Water website www.thameswater.co.uk for this document in full.

Contents

1. Highlights for the year ended 31 March 2017

Financial performance

- £605 million underlying operating profit (2015/16: £742.2 million).
- £71.1 million profit before tax (2015/16: £511.2 million), due to fair value loss on financial instruments, increased costs and lower property sales.
- Capital expenditure of £1.1 billion on network and infrastructure in 2016/17, with around £12 billion invested in last 12 years.
- £100 million in dividends paid to external shareholders (2015/16: £nil).
- Maintained strong investment grade credit rating (Moody's Corporate Family Rating Baa1).

Customer service

- 94.5% of complaints resolved first time, up from 90.9% in 2015/16.
- At £374 a year, customers continue to benefit from the third lowest average combined water and wastewater bill in England and Wales.
- £14.6 million reduction in bad debt expense caused by customer non-payment.
- Our Service Incentive Mechanism (Ofwat SIM) score moves from 76.7 to 77.3 points out of 100.

Operational performance

- Scored 99.96% drinking water quality compliance. Water quality remains among the best in the world.
- After outperforming our annual target for 10 years, and reducing leakage by 100 million litres per day over that period - the equivalent of 40 Olympic-sized swimming pools - we regrettably missed our 2016/17 leakage reduction target by 47 million litres per day, which represents 1.8% of our average daily production.
- Transformed our approach to preventing pollutions following offences at six sites in the Thames Valley between 2012 and 2014, for which we paid a £19.75 million fine in 2017. We've been more proactive in our wastewater network maintenance, changed our management structure in the affected region and invested heavily in our infrastructure and control systems leading to a 42% reduction in incidents since 2013.
- Investment in producing energy from sewage is paying off with 267 GWh of energy produced in 2016/17 – our best performance to date, and enough to power 86,000 homes a year.
- Largest water efficiency programme in the industry. Measures including the installation of 146,000 smart water meters and 60,000 Smarter Home Visits produced an annual saving of 22.2Ml/d, ahead of target.

Future plans

- CEO Steve Robertson, who joined in September 2016, sets out new approach to running the business, after forming new leadership team, with promise to drive change that delivers more for customers.
- Committed to additional investment in excess of £150 million by 2020 in critical areas, including £97m on our largest ('trunk') mains.
- New major shareholders Borealis Infrastructure, the infrastructure investment manager of OMERS, one of Canada's largest pension plans, and Wren House, the global direct infrastructure investment arm of the Kuwait Investment Authority, acquired the Macquarie-managed 26.3% stake. Sale completed on 31 May 2017 as planned.

2. Thames Tideway Tunnel

During the 2016/17 financial year, Thames Water Utilities Limited ("TWUL") billed revenue for the construction of the Thames Tideway Tunnel ("TTT") for the first time. £33.0 million 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 reflected in our income statement while the TTT is built. This will increase our profits during the construction phase but the profits will not be supported by cash, therefore the Directors have excluded the monies from our 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.

Thames Water has been progressing its programme of Enabling Works and handing worksites over to BTL and its contractors. In May 2017 all worksites were handed over, and in June 2017 all power supplies for the Tunnel Boring Machines (TBMs) were energised. Thames Water commenced construction of the 3.0m diameter and 800m long bypass tunnel at Beckton Sewage Treatment Works in November 2016.

BTL and its contractors have started construction on the Thames Tideway Tunnel across a number of sites, with significant progress at the three main tunnel drive sites at Chambers Wharf, Kirtling Street and Carnwath Road Riverside. The first of six TBMs needed to build the 7.2m diameter, 25km long tunnel has been manufactured and tested in Germany, ahead of its arrival at Carnwath Road. Tunnelling is expected to commence next spring.

The Counters Creek flood alleviation scheme in West London is still under development and subject to planning. TWUL's preferred solution would involve works to be carried out at the TTT Cremorne Wharf Depot site adjacent to BTL's works and would involve a direct connection into the TTT system. In order to allow for this, TWUL has agreed an additional Project Document (the Cremorne Wharf Agreement) which provides for TWUL to fund changes to the TTT works required to facilitate the integration of the two projects, puts the works on a similar contractual footing to TWUL's other TTT-related works, addresses design coordination and access arrangements, and puts reciprocal asset protection arrangements in place.

3. Business Update*

Year to 31 March 2017

Steve Robertson joined as our new Chief Executive Officer (CEO) in September 2016. As former CEO at Truphone and founding CEO of BT Openreach, Steve has crucial experience running essential infrastructure and high technology companies.

We also welcomed our new Chief Financial Officer (CFO), Brandon Rennet, in March 2017. With 14 years in the power and utilities industries, most recently at SSE, Brandon brings a wealth of experience and another fresh perspective to our business.

To maintain our strong governance, we've appointed Nick Land, former Chairman of Ernst & Young, as our new Independent Non-Executive Director to replace Michael Pavia, who retired this year. Nick is the new Chairman of our Audit, Risk and Regulatory Committee. He has extensive boardroom experience and is currently the Chair of Vodafone's Audit and Risk Committee, as well as Chairman of the Private Equity Reporting Group and a member of the Board of the Financial Reporting Council.

In March 2017 we incurred a £19.75 million fine for a group of pollution incidents, which occurred between 2012 and 2014 – during the last regulatory period - and we deeply regret these incidents.

We're doing things very differently now. We've been more proactive in our wastewater network maintenance, changed our management structure in the affected region and invested heavily in our infrastructure and control systems. We've reduced our pollutions by 42% since 2013 and we know there's more we need to do. Our total expenditure on our wastewater network for 2016/17, including operational expenses and investment, was almost £900 million.

Ahead of the opening of the business retail market to competition on 1 April 2017, all our business retail customers were moved across to Castle Water following our decision to exit the market. In July 2016 we reached an agreement with them to sell our retail non-household business, generating proceeds of £99 million. This change allows us to focus more on the delivery of our core service for our customers in the wholesale and household businesses. It also frees up funds to invest further in areas of the highest priority such as leakage and 'trunk' mains replacements.

Post 31 March 2017

2016/17 also saw the announcement of a change in our largest shareholder. Borealis Infrastructure, the infrastructure investment manager of Ontario Municipal Employees Retirement System ("OMERS"), one of Canada's largest pension plans, and Wren House, the global direct infrastructure investment arm of the Kuwait Investment Authority, acquired the 26.3% Macquarie-managed stake. The sale completed on 31 May 2017. We welcome Kenton Bradbury, Managing Director of Asset Management at Borealis, to the Board of Thames Water Utilities Limited. A chartered engineer, Kenton has many years' experience working with a range of major infrastructure and utility companies, including as a Director for Yorkshire Water and Affinity Water.

On 25 April 2017, Fiera Infrastructure (Aquila) agreed to acquire 2.389% interest from SAS Trustee Corporation increasing their interest to nearly 5%.

On 24 July 2017, Universities Superannuation Scheme Limited (USS), the sole corporate trustee of one of the UK's largest pension funds, agreed to acquire a combined 10.94% stake from investors QSuper, Alberta Investment Management Corporation (AIMCo) and OPTrust.

On 26 July 2017, Borealis Infrastructure announced the purchase of an additional 5.5% interest from AMP Capital.

*This should be read in conjunction with the TWUL annual report and financial statements for the year ended 31 March 2017, which were published on 14th June 2017.

4. Financing

TWUL raises debt either directly or through its wholly owned financing subsidiary, Thames Water Utilities Cayman Finance Limited (TWUCF). TWUL also has bonds outstanding via its wholly owned subsidiary Thames Water Utilities Finance Limited (TWUF).

Table 1 Current Credit Ratings

Company	Moody's	Standard & Poor's
TWUL – Corporate Family Rating	Baa1 (stable)	N/A
TWUCF – Class A Issuer Rating	A3 (stable)	A- (negative)
TWUCF – Class B Issuer Rating	Baa3 (stable)	BBB (negative)

On 6 April 2017 Moody's affirmed the Baa1 Corporate Family Rating (CFR) of the Company and the A3 senior secured Class A rating and Baa3 subordinated debt Class B rating with stable outlook.

On 24th July 2017 S&P downgraded the credit rating of the debt obligations of the Company as follows:

- Class A debt - downgraded by one notch from A- (negative outlook) to BBB+ (stable outlook)
- Class B debt - downgraded by one notch from BBB (negative outlook) to BBB- (stable outlook)

i) Recent financing activity

During the year ended 31 March 2017 the following was undertaken:

- May 2016 – TWUL, £39m Class B fixed rate loan due 2026
- December 2016 – TWUCF, £400m Class A PCR bond due 2058 exchanged for £400m Class A bond due 2058
- January 2017 – TWUCF, £250m Class A bond due 2024
- January 2017 – TWUCF, £250m Class A bond due 2032
- March 2017 – TWUCF, £42m revolving credit facility drawdown due 2017

ii) Bonds outstanding at 31 March 2017

Table 2 Class A and B bonds outstanding at 31 March 2017

Issuer	Currency	Face Value (currency m)	Coupon %	Maturity Date	Class	Description	Face Value and accretion at 31 Mar 17 (£m)
TWUCF	GBP	550.0	5.375%	21/07/2017*	B	Fixed Rate Bond	550.0
TWUF	GBP	200.0	5.050%	30/06/2020	A	Fixed Rate Bond	200.0
TWUF	GBP	225.0	6.590%	20/04/2021	A	Fixed Rate Bond	225.0
TWUF	GBP	175.0	3.375%	21/07/2021	A	RPI Linked Bond	264.3
TWUCF	EUR	113.0	2.300%	18/07/2022	A	CPI Linked Bond	100.6
TWUCF	GBP	300.0	5.750%	13/09/2030	B	Fixed Rate Bond	300.0
TWUCF	GBP	500.0	4.000%	19/06/2025	A	Fixed Rate Bond	500.0
TWUCF	GBP	45.0	0.721%	21/12/2027	A	RPI Linked Bond	46.0
TWUCF	GBP	300.0	3.5%	25/02/2028	A	Fixed Rate Bond	300.0
TWUF	GBP	330.0	6.750%	16/11/2028	A	Fixed Rate Bond	330.0
TWUF	GBP	200.0	6.500%	09/02/2032	A	Fixed Rate Bond	200.0
TWUCF	GBP	300.0	4.375%	03/07/2034	A	Fixed Rate Bond	300.0
TWUCF	GBP	40.0	0.75%	18/12/2034	A	RPI Linked Bond	40.9
TWUF	GBP	600.0	5.125%	28/09/2037	A	Fixed Rate Bond	600.0
TWUCF	JPY	20,000.0	3.280%	20/08/2038	A	Fixed Rate Bond	143.3
TWUCF	GBP	50.0	3.853%	15/12/2040	A	LPI Linked Bond	60.9
TWUCF	GBP	500.0	5.500%	11/02/2041	A	Fixed Rate Bond	500.0
TWUCF	GBP	50.0	1.980%	28/08/2042	A	RPI Linked Bond	64.4
TWUCF	GBP	55.0	2.091%	06/10/2042	A	RPI Linked Bond	68.4
TWUCF	GBP	40.0	1.974%	12/10/2045	A	RPI Linked Bond	45.7
TWUCF	GBP	300.0	4.625%	04/06/2046	A	Fixed Rate Bond	300.0
TWUCF	GBP	100.0	1.846%	28/08/2047	A	RPI Linked Bond	128.9
TWUCF	GBP	200.0	1.819%	28/08/2049	A	RPI Linked Bond	257.8
TWUF	GBP	300.0	1.680%	11/07/2053	A	RPI Linked Bond	408.2
TWUF	GBP	300.0	1.681%	11/07/2055	A	RPI Linked Bond	408.2
TWUCF	GBP	200.0	1.771%	28/08/2057	A	RPI Linked Bond	257.8
TWUCF	GBP	400.0	7.738%	09/04/2058	A	Fixed Rate Bond	400.0
TWUCF	GBP	350.0	1.760%	28/08/2062	A	RPI Linked Bond	451.1
TWUCF	GBP	250.0	1.875%	24/01/2024	A	Fixed Rate Bond	250.0
TWUCF	GBP	250.0	2.625%	24/01/2032	A	Fixed Rate Bond	250.0
Total							**7,951.5**

* Coupon step up and call date

iii) TWUL Net debt reconciliation

The book value of RPI Linked Bonds as at 31 March 2017 includes accretion of £601.7m.

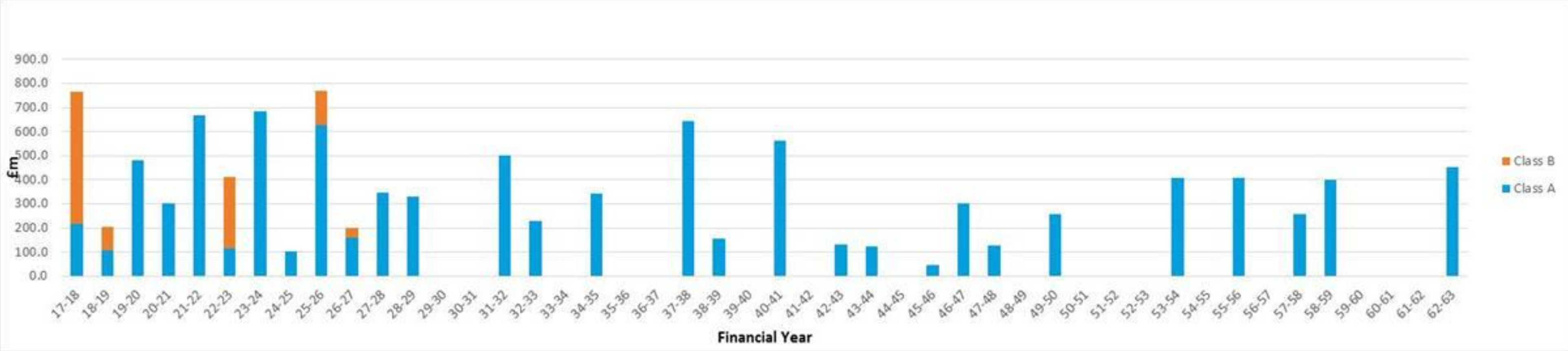
Table 3 TWUL net debt reconciliation

	£m
Book Value Bonds including accretion Class A	7,101.5
Book Value Bonds including accretion Class B	850.0
Total Book Value Bonds including accretion	**7,951.5**
Class A USPP Notes	479.1
Class B USPP Notes	119.8
Class A RPI linked loans including accretion of £134.4m	1,264.4
Accretion on Index-linked Swaps	223.3
Class A Floating Rate Loans	492.0
Class A Cross-currency swaps	(78.9)
Class B Cross-currency swaps	(23.2)
Class B Loans	179.0
Less TWUL Cash Investments	(57.5)
TWUL Net Debt as per Compliance Certificate	**10,549.5**
Fees and Discounts	(75.2)
Intercompany Loans*	300.0
Derivative financial liabilities	(208.4)
Interest payable on amounts owed to group undertakings	179.2
Interest payable on secured bank loans	4.3
TWUL Net Debt as per accounts at 31 March 2017	**10,749.4**

***** This relates to intercompany loans to financing subsidiaries for which there is no related external debt.

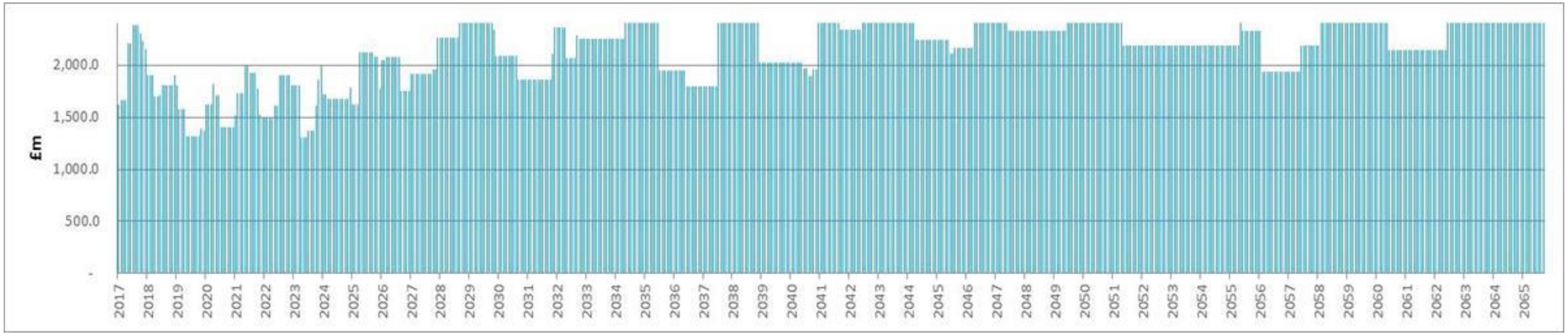
iv) Maturity profile and headroom analysis

Graph 1 Debt maturity profile



Growth in RCV ensures significant headroom available across all maturities.
There is a covenant in place which dictates that additional debt issuance shall not cause net debt to exceed 20% of RCV in any 24 month period or 40% of RCV within any AMP.

Graph 2 Covenant headroom analysis



v) Derivative transactions

All hedging agreements are entered into under the terms of the Hedging Policy and the CTA. TWUL, TWUF and TWUCF have entered in to a series of ISDA documents with various counterparties.

Table 4 Group & TWUL Derivative summary valuations

Derivative type	Group MtM as at 31 March 2017 (£m)	TWUL MtM as at 31 March 2017 (£m)
Cross currency swaps	(2.6)	(71.6)
Interest rate swaps	(263.1)	(263.1)
Index-linked swaps	(985.5)	(506.2)
Total	**(1,251.2)**	**(840.9)**

Foreign currency debt instruments are converted to Sterling liabilities with cross currency swaps as illustrated below. Swaps with breaks amount to 1.19% at 31 March 2017 (limit 5% of RCV).

Table 5 Cross currency swaps

Issuer	Foreign Currency	Currency Amount (m)	£m	Maturity Date	Notes	MtM as at 31 March 2017 (£m)
TWUCF	USD	150	96.6	27/02/2019	Class B	21.1
TWUCF	USD	150	96.6	28/02/2022		16.6
TWUCF	EUR	113	100.0	18/07/2022		(3.7)
TWUCF	USD	200	128.8	27/02/2024		18.4
TWUCF	USD	250	161.0	01/03/2027		16.6
TWUL	JPY	20,000	153.6	20/08/2038		(71.6)
Total			**736.6**			**(2.6)**

In mid-2014 TWUL entered into £2.25bn of forward starting fixed rate interest rate swaps (“FSSs”) to protect interest costs for AMP6. Due to the fall in short term interest rates the mark to market of these FSSs has increased to £262.9m (31 March 2016: £219.4m).

Table 6 Interest rate swaps

Issuer	Notional £m	Start Date	Maturity Date	MtM as at 31 March 2017 (£m)
Forward starting interest rate swaps				
TWUL	500.0*	13/09/2016	13/09/2021	(45.3)
TWUL	500.0	16/07/2017	18/07/2022	(62.4)
TWUL	300.0	14/03/2019	14/03/2024	(29.2)
TWUL	400.0*	16/03/2017	16/03/2024	(61.9)
TWUL	250.0	14/09/2019	14/09/2024	(24.2)
TWUL	300.0	16/03/2018	16/03/2025	(39.6)
	2,250.0			**(262.6)**
Interest rate swaps				
TWUL	15.0	31/03/1998	30/03/2018	(1.1)
TWUL	500.0	24/01/2017	13/09/2021	0.6
	515.0			**(0.5)**
Total	**2,765.0**			**(263.1)**

*These FSSs commenced during the year.

Table 7 Inflation 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 31 March 2017 (£m)
TWUL	200.0	210.9	At maturity	09/02/2032	-	(93.2)
TWUL	150.0	206.1	At maturity	28/09/2037	-	(110.4)
TWUL	250.0	206.1	28/09/2023	28/09/2037	12 years, maturity	(155.7)
TWUL	200.0	206.1	28/09/2017	28/09/2037	Every 5 years	(102.8)
TWUL	94.1	215.1	20/08/2018	20/08/2038	Every 5 years	(38.7)
TWUL	10.0	258.8	At maturity	31/03/2026	-	(1.5)
TWUL	10.0	258.8	At maturity	31/03/2026	-	(1.5)
TWUL	114.9	264.8	09/04/2046	09/04/2058	-	(2.4)
TWUF	100.0	215.3	30/06/2020	31/12/2029	Every 5 years	(64.4)
TWUF	200.0	215.3	31/12/2019	31/12/2039	Every 5 years	(199.7)
TWUCF	100.0	218	17/02/2020	17/02/2060	Every 5 years	(194.9)
TWUCF	100.0	235.2	At maturity	11/07/2022	-	(34.6)
	1,529.0					**(999.8)**

None of these swaps contain breaks. Accretion as a percentage of Class A net indebtedness is 2.37% (limit 8% of Class A net indebtedness).

vi) Available facilities

As at 31 March 2017, TWUL had committed facilities of £1,450m (£1,408m undrawn) in place. These facilities provide the necessary liquidity to fund the operations of the business for a minimum of twelve months. The undrawn committed facilities consist of the following:

- £950m (£908m undrawn) revolving credit facility expiring November 2021. In October 2016 the extension of the maturity of the RCF was completed. The facility will now expire in 2021. This “5+1+1” facility had an initial maturity of 2020 with the ability to extend by a further year with lenders consent at the anniversary of signing in each of the first two years. Pricing remained unchanged.
- £500m 364-day liquidity facilities (split: £370m debt service reserve and £130m operations and capital maintenance reserve).

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 required additionally to hold a minimum long term rating from Moody's of A3. 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 despite falling below the Minimum rating requirement. We are in regular dialogue with the Security Trustee whilst this matter is outstanding. Following a competitive tender for a new banking service contract, TWUL has identified a preferred bidder and planning process for the transition of Account Bank and Standstill Cash Manager has commenced.

viii) Accretion charge

The income statement charge for the 12 months to 31 March 2017 relating to accreted interest expense and the total cumulative accretion held on the balance sheet on RPI linked debt and derivative instruments is detailed below.

Table 8 Accretion charge

Instrument	12 months to March 2017 (£m)	Accretion paydowns 12 months to March 2017 (£m)	Total cumulative accretion (£m)
Index-linked Bonds	56.7	-	601.7
Index-linked Loans	33.2	-	134.4
Index-linked Swaps	21.2	-	176.7
Index-linked Swaps with 5 year accretion paydowns	21.4	-	46.6
Total	**132.5**	**-**	**959.4**

ix) Cash and Authorised Investments

As at 31 March 2017, TWUL held the following cash and cash equivalent investments. All bank deposits are held with counterparties that hold a short-term rating of A-1/P-1 or higher.

Table 9 Cash and Authorised Investments

Counterparty type	Amount (£m)
Cash and Cash Equivalents (including AAA Money Market Funds)	56.5
Short Term Investments (Bank Deposits)	1.0
Total TWUL cash and investments	**57.5**

5. Dividends

During the period the Company has paid dividends of £157.0 million (2015/16: £82.4 million). £57.0 million of the dividends paid in respect of the current year were made to other companies within the Kemble Water Group, to service their own debt obligations and working capital requirements. External shareholders were paid £100.0m (2015/16: £nil).

6. 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.

7. 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 in the 31 March 2017 TWUL financial statements in order to arrive at the covenants below in accordance with the terms of the Common Terms Agreement.

Table 10 Senior and Class A net debt – breakdown of calculation for year to 31 March 17

Senior net debt

31 March 2017 (£m)	
Senior net debt per accounts	**10,749.4**
Less subordinated intercompany debt	(0.0)
Less intercompany loans	(300.0)
Less accrued interest	(183.5)
Add derivative financial liabilities	208.4
Add amortised debt fees	75.2
Senior net debt per compliance certificate	**10,549.5**

Class A net debt

31 March 2017 (£m)	
Senior net debt per accounts	**10,749.4**
Less Class B debt	(1,125.6)
Less intercompany loans	(300.0)
Less accrued interest	(183.5)
Add derivative financial liabilities	208.4
Add amortised debt fees	75.2
Class A net debt per compliance certificate	**9,423.9**

Table 11a Conformed net cashflow

	31 March 2017 (£m)
Cashflow from operations	1,049.8
Reversal of capex creditor	-
Less IP cashflows	(30.6)
Add back IP Payments	26.8
Net cashflow	**1,046.0**

Table 11b Net interest paid – breakdown of calculation for the year to 31 March 2017

	31 March 2017 (£m)
Interest paid per accounts	352.3
Interest received per accounts	(81.9)
Net interest paid per accounts	270.4
Capitalised borrowing costs	76.3
Intercompany interest received (eliminated from the calculation)	12.5
Net interest paid per covenant	**359.2**

TWUL receives interest on its £1,974.7m (31 March 2016: £2,015.0m) intra-group loan to TWUH. Within the calculation of net interest paid, TWUL excludes the interest it receives on this loan. For the purpose of this calculation the tax effect of eliminating the inter-company 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

	31 March 2017 (£m)
Water and wastewater depreciation (12/13 prices)	(505.9)
Factor to convert from 12/13 to outturn prices	1.083
Depreciation (Outturn prices)	**(547.9)**

We confirm that in respect of the Calculation Date on 31 March 2017, 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 2017	31 March 2018
Class A RAR	72.8%	72.7%
Conformed Senior RAR	81.5%	80.9%

Test date	31 March 2017	31 March 2018
Conformed Class A ICR	3.47	3.60
Additional Conformed Class A Adjusted ICR	1.65	1.77
Additional Conformed Senior Adjusted ICR	1.39	1.47
Additional Conformed Class A Average Adjusted ICR	1.78	1.86
Additional Conformed Senior Average Adjusted ICR	1.52	1.62

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.

Appendix 1 Financial ratio calculations

Forward looking ratios for March 2019 to March 2020 and an information sheet on additional conformed interest cover ratio calculation have been provided to the Security Trustee and the Facility Agent as required in 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 or Thames Water as appropriate.

Appendix 2 Group Debt Structure

Thames Water - Group Debt Structure at March 2017

- 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	275.0	July 2022
£65m RCF	0.0	July 2020

Thames Water (Kemble) Finance PLC

	Amount	Maturity
£400m 7.75% Bond	400.0	April 2019
£175m 5.875% Bond	175.0	July 2022

Thames Water Ltd.

Securitisation Ring-fenced Group

Thames Water Utilities Holdings

Thames Water Utilites Ltd.

Class A	Amount	Maturity
Term Loans	450.0	2017-2021
RPI Term Loans	1,264.3	2019-2043
Accretion on RPI swaps	198.1	2026-2058
Cross Currency swaps	10.3	August 2038
	1,922.7	
Class B		
Term Loans	179.0	March & May 2026
Total TWUL Debt	**2,101.7**	

Revolving Credit Facilities	Amount	Maturity
Revolving Credit Facility £950m	-	November 2021
Total RCF	-	

Thames Water Utilities Finance

Class A	Amount	Maturity
£330m 6.750% Bond, Ser. 11	330.0	November 2028
£200m 6.500% Bond, Ser. 22	200.0	February 2032
£175m 3.375% RPI Bond, Ser. 37	264.3	July 2021
£200m 5.050% Bond, Ser. 40	200.0	June 2020
£225m 6.590% Bond, Ser. 41	225.0	April 2021
£300m 1.681% RPI Bond, Ser. 42	408.2	July 2055
£300m 1.6802% RPI Bond, Ser. 43	408.2	July 2053
£600m 5.125% Bond, Ser. 44	600.0	September 2037
Accretion on RPI swaps TWUF	12.7	2029-2039
Total TWUF Class A Debt	**2,648.4**	

	Amount	Net Debt/RCV
Securitisation Group - Total Class A Debt	**9,481.4**	
Securitisation Group - Total Senior Debt	**10,607.0**	
Securitisation Group - Total Cash	**57.5**	
Securitisation Group - Total Class A Net Debt	**9,423.9**	72.8%
Securitisation Group - Total Senior Net Debt	**10,549.5**	81.5%
KWF - Total Group Debt	**11,457.0**	
KWF - Total Cash	**71.5**	
KWF - Total Group Net Debt	**11,385.3**	88.0%

	Amount	
Accretion on RPI swaps (limit of 8%)	223.3	2.37%
Swaps with breaks (limit of 5%)	153.6	1.19%
RPI Bonds/Loans	3,766.9	
RPI Debt in Securitisation Group	3,766.9	36%
Stated RCV as at 31 March 2017	**12,944.4**	

Thames Water Utilities Cayman Finance

Class A	Amount	Maturity
Series 1 A1 £350m 1.760% RPI Bond	451.1	August 2062
Series 1 A2 £200m 1.771% RPI Bond	257.8	August 2057
Series 1 A3 £200m 1.819% RPI Bond	257.8	August 2049
Series 1 A4 £100m 1.846% RPI Bond	128.9	August 2047
Series 1 A5 £50m 1.980% RPI Bond	64.4	August 2042
Series 20 £400m 7.738% Bond	400.0	April 2058
Series 3 JPY20bn 3.28% Bond	143.3	August 2038
Series 4 £50m 3.853% LPI Bond	60.9	December 2040
Series 6 £55m 2.091% RPI Bond	68.4	October 2042
Series 10 £40m 1.974% RPI Bond	45.7	October 2045
Series 12 £500m 5.50%Bond	500.0	February 2041
Series 13 €113m 2.30% CPI Bond	100.6	July 2022
Series 14 £300m 4.375% Bond	300.0	July 2034
Series 15 £300m 4.625% Bond	300.0	June 2046
Series 16 £500m 4% Bond	500.0	June 2025
USPP $150m Note	119.8	February 2022
USPP $200m Note	159.7	February 2024
USPP $250m Note	199.6	March 2027
Series 17 £40m 0.75% RPI Bond	40.9	December 2034
Series 18 £45m 0.721% RPI Bond	46.0	December 2027
Series 19 £300m 3.5% Bond	300.0	February 2028
Series 21 £250m 1.875% Bond	250.0	January 2027
Series 22 £300m 2.625% Bond	250.0	January 2032
£42m revolving credit facility drawdown	42.0	April 2017
Cross Currency Swaps TWUCF	(89.1)	2022-2027
Accretion on RPI swaps TWUCF	12.5	2022-2026
Total Class A Debt	**4,910.3**	
Class B		
Series 8 £550m 5.375% Bond	550.0	July 2017
Series 9 £300m 5.75% bond	300.0	September 2022
USPP $150m Note (Class B)	119.8	February 2019
Cross Currency Swaps (Class B)	(23.2)	February 2019
Total Class B Debt	**946.6**	
Total TWUCF Debt	**5,856.9**	

Appendix 3 PMICR Covenant Information Sheet

Forward looking ratios for March 2019 to March 2020 and an information sheet on additional conformed interest cover ratio calculation have been provided to the Security Trustee and the Facility Agent as required in 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 or Thames Water as appropriate.

Appendix 4 KWF Consolidated Net Debt Reconciliation / Ratios

	£m
TWUL Book Value Bonds including accretion Class A	7,101.5
TWUL Book Value Bonds including accretion Class B	850.0
TWKF Book Value Bonds	575.0
Total Book Value Bonds including accretion	**8,526.5**
Class A USPP Notes	479.1
Class B USPP Notes	119.8
Class A RPI linked loans including accretion of £134.4m	1,264.4
Accretion on RPI Linked Swaps	223.3
Class A Floating Rate Loans	492.0
Class A Cross-currency swaps	(79.0)
Class B Cross-currency swaps	(23.2)
Class B Loans	179.0
KWF Floating Rate Loans	275.0
Less Cash Investments	(97.5)
Cash Held by Non Covenant Entities	25.9
KWF Net Debt as per Compliance Certificate	**11,385.3**
Subordinated Loan from Kemble Water Eurobond Plc (Parent)	3,100.6
Fees and Discounts	(85.1)
Fair Value Adjustment on acquisition to loans	201.3
Cash Held by Non Covenant Entities	(25.9)
Derivative financial liabilities	(121.2)
Interest payable on amounts owed to group undertakings	1,999.1
Interest payable on secured bank loans	164.5
KWF Net Debt as per accounts at 31 March 2017	**16,618.6**

Update

- £850m drawn KWF debt now comprises:
  - £400m (7.75%) fixed rate bond due 2019
  - £175m (5.875%) fixed rate bond due 2022
  - £200m (4.74%) floating rate loan due 2025 (6m Libor + Margin)
  - £75m (4.48%) floating rate loan due 2022 (6m Libor + Margin)
- £65m RCF remains undrawn
- No changes to bank counterparties since refinancing
- No outstanding derivatives at KWF
- Moody's and Fitch reaffirmed their ratings for TWKF Bonds at B1 and BB respectively.

Dividends

KWF did not pay any dividends in the period.

The ratios

	Default Level	31 March 2017
Cash Flow less Capital Maintenance Expenditure		572.2
Total Interest Service		414.1
Group PMICR	**1.05**	**1.38**

	Default Level	31 March 2017
Total Net Debt		11,385.3
RCV		12,944.4
RAR	**92.5%**	**88.0%**

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