

Independent Expert Report to the High Court of Justice by Matt Cowlshaw

In the High Court of Justice

Business and Property Courts of England and
Wales

In the matter of Thames Water Utilities Holdings
Limited

And in the matter of the Companies Act 2006

11 December 2024

Teneo Financial Advisory Limited is registered in England & Wales with registered number 13192958
and its registered office at 11 Pilgrim Street, London, EC4V 6RN, United Kingdom

Strictly Private and Confidential



Contacts

Matt Cowlshaw

Senior Managing Director

Matt.Cowlshaw@teneo.com



Teneo Financial Advisory Limited
The Carter Building
11 Pilgrim Street
London
EC4V 6RN

The High Court of Justice
Business and Property Courts of
England and Wales

11 December 2024

Dear Sirs/Mesdames

Thames Water Utilities Holding Limited (“TWUHL” or “the Company”)

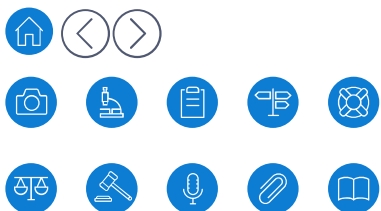
I enclose my independent expert report (the “Report”) on the Restructuring Plan proposed by the Company, impacting the whole business securitisation (“WBS”) lending to the Company and its subsidiary undertakings Thames Water Utilities Limited (“TWUL”) and Thames Water Utilities Finance plc (“TWUF”) (together “the Group”).

This Report has been prepared for the sole purpose of assisting and advising the Court in accordance with a detailed Instruction Letter received from Linklaters LLP dated 5 December 2024 (enclosed at Appendix 3). I have prepared this report on the basis of those instructions.

I am a Senior Managing Director at Teneo Financial Advisory Limited (“Teneo”), specialising in restructuring. My opinion is based on over 28 years of restructuring experience. The first 25 years of my career were spent with one of the “Big 4” accounting firms, 12 years of which were as a partner. I have been a Chartered Accountant since 1999, qualified as an Insolvency Practitioner in 2003 and have taken insolvency appointments since 2009.

During my career I have been appointed the Insolvency Practitioner to over 250 companies. The type of advice that I provide includes:

- Taking formal insolvency appointments;
- Contingency planning for insolvency;
- Options analysis;
- Independent business reviews;
- Supporting corporates and stakeholders navigate financial distress; and
- Covenant reviews assessing strength of employers for pension stakeholders.



Contacts

Matt Cowlishaw

Senior Managing Director

Matt.Cowlishaw@teneo.com

My clients include corporates, lenders, regulators, Government departments and pension stakeholders.

I have a degree in Economics and Econometrics from the University of Nottingham and I am a member of the ICAEW Conduct Committee.

Of particular note in this case is my appointment as Special Administrator of Bulb Energy Limited, the first and only UK utility company to be placed into a Special Administration process, funded by HMG. I was appointed to this role in Nov 21 and subsequently completed on a sale of its business and assets in Dec 22 via an Energy Transfer Scheme. This appointment remains live. The energy supply company administration regime under the Energy Act 2011 is broadly comparable to the water special administration regime under the Water industry Act 1991 ("WIA").

A copy of my full qualifications and relevant experience is contained at Appendix 1.

Teneo and I accept no duty nor responsibility to any person other than the Court in accordance with the duties owed by independent experts under relevant English law and procedure, respectively, and the Company in accordance with the terms of our engagement.

I understand that in producing this Report my overriding duty is to the Court and I confirm that I have complied with that duty and will continue to comply with it. I am aware of and have complied with the requirements of CPR Part 35, Practice Direction 35 and the Guidance for Instruction of Experts in Civil Claims (2014).












I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Yours faithfully



Matt Cowlishaw
Teneo Financial Advisory Limited



	Contents	3
	Executive Summary	4
	Approach	15
	Restructuring Plan overview	18
	Selection of Relevant Alternative	30
	Relevant Alternative overview	43
	Evaluation of Scenarios	58
	Estimated outcomes	89
	Conclusions	105
	Appendices	107
	Glossary	126





Executive Summary

Background	5
Summary of the Plan	6
Methodology	7
Selection of Relevant Alternative	8
Relevant Alternative overview	9
Evaluation of Scenarios	10
Estimated outcomes and conclusions	14



Executive Summary

Background

TWUHL is the immediate parent of TWUL, an Ofwat Regulated Water Company. TWUHL has proposed a Restructuring Plan to seek to create sufficient liquidity to enable the Group to raise the additional equity it requires.

Introduction

- I have been instructed by Thames Water Utilities Holdings Limited (“TWUHL”) to provide the Court with an independent expert view on the impact of the Restructuring Plan (“the Plan”) proposed.
- My Executive Summary is ordered as follows:
 - Background
 - Restructuring Plan overview
 - No worse-off test
 - Teneo’s involvement
 - Methodology of approach
 - Selection of Relevant Alternative
 - Relevant Alternative overview
 - Evaluation of the scenarios
 - Estimated outcomes
 - Conclusion
- In preparing this report, I reviewed information from a number of sources, held discussions with a variety of stakeholders, and received assistance from a number of members of the Teneo team. Information used in the preparation of this Report can be seen at Appendix 2.

Background

- TWUHL is the Company proposing the Plan.
- TWUHL is the parent company of three companies that comprise a whole business securitisation group (the “Group”), which also comprises Thames Water Utilities Limited (“TWUL”) (a water and sewerage undertaker within the meaning of the Water Industry Act 1991) and Thames Water Utilities Finance plc (“TWUF”) (a subsidiary which arranges much of the financing for the Group). TWUHL’s principal activities are to: (i) hold the shares in TWUL; and (ii) guarantee the obligations of TWUL and TWUF under the Finance Documents. TWUHL has no employees nor any physical assets (other than the shares in TWUL).
- TWUL is the largest provider of water and sewerage services in the UK, serving approximately 16m customers daily across London and the Thames Valley. TWUL is regulated by The Water Services Regulation Authority (“Ofwat”), in accordance with its instrument of appointment granted by the Secretary of State for the Environment (the “Licence”).
- TWUL is seeking a new equity injection in order to fulfil its investment plans for the next five-year regulatory period (termed “AMP8”). I understand from TWUL and its M&A advisors (Rothschild & Co) that any equity offer to the business will only firm up investment terms once the Ofwat Final Determination (“FD”) is known for AMP8. This is expected by the Group on 19 Dec 24 (albeit could be later).
- It is also anticipated by TWUL and its M&A advisors that the terms for the necessary equity investment are likely to include requirements for a restructuring of the debt held within the Whole Business Securitisation (“WBS”) structure. The consequent timetable to agree any necessary debt restructure and finalise equity investment terms is expected to stretch into around Sep 25 (based on discussions with the Group’s advisors) and will most likely require a second Restructuring Plan at that time to effect the debt restructure (the “Final RP”).
- TWUL is therefore seeking the support of its WBS creditors to create sufficient liquidity to allow a recapitalisation transaction to be agreed after Ofwat’s FD for AMP8.



Executive Summary

Summary of the Plan

The Plan has been proposed in order to provide sufficient liquidity for the Group to enable its stakeholders to assess the Ofwat Final Determination and to bridge to a subsequent Restructuring Plan in or around Sep 25.

Restructuring Plan overview

- The primary objective of the Plan is to provide the Group with a stable platform so it can complete any recapitalisation transaction following the publication of Ofwat's FD.
- TWUHL has requested the support of WBS creditors in four key areas:
 - i. To create "Super-Senior" lending capacity within the current WBS arrangements;
 - ii. To provide sufficient funding into that Super-Senior basket – up to £3.0bn is proposed, consisting of an initial £1.5bn, and a potential further sum of £1.5bn;
 - iii. To extend the debt maturities of existing debt by two years; and
 - iv. To permit the release of the current debt service reserves for operational use.
- Prior to the Convening Hearing for the Plan, TWUHL will enter into a deed of contribution in favour of TWUL and TWUF. This will require it to contribute any amounts that are paid by either TWUL or TWUF towards the obligations under any of the WBS Debt.
- Once this deed is in place, any amendment of TWUHL's obligations to the WBS creditors will also impact the WBS creditors' claims against both TWUL and TWUF.
- As a result, TWUHL expects to utilise the Plan to bind the WBS creditors to the new liquidity bridge arrangements.
- If a suitable equity offer is then forthcoming, Management's current expectation is that TWUHL would then utilise a further Final RP in or around Sep 25 to effect the necessary changes to current debt arrangements that may be required in order to secure the equity injection.

"No worse-off" test

- In order for the Court to sanction the Plan in the presence of one or more dissenting classes, the Court must be satisfied (amongst other things) that none of the members of the dissenting creditor class or classes would be any worse off under the terms of the Plan than they would be in the Relevant Alternative. This is referred to as the "no worse-off" test.
- The Plan is proposed in respect of the following creditor classes:
 - i. Liquidity Facility lenders, comprising the Class A DSR Liquidity Facility, the Class B DSR Liquidity Facility and the O&M Reserve Facility;
 - ii. The Interest Rate and Index Hedging providers;
 - iii. The Currency Hedging providers;
 - iv. Class A lenders, comprising Class A RCFs, Class A TLs, Class A Notes and Class A Bonds, where those instruments incorporate Make-whole provisions;
 - v. Class A lenders, comprising Class A RCFs, Class A TLs, Class A Notes and Class A Bonds, where those instruments do not incorporate Make-whole provisions;
 - vi. Class B lenders, comprising the Class B RCFs, Class B TLs and Class B Bonds; and
 - vii. The Subordinated Loans,together, the "Plan Debt"
- The ranking of creditors in distributing proceeds in an enforcement scenario is dictated by the WBS documents. I have set out the ranking of each creditor in more detail later in this report.
- I also note that the terms of the Plan do change the ranking of certain creditor groups, which I have factored into my analysis.



Executive Summary

Methodology

I have been asked to prepare an independent report to the Court to assess whether creditors would be worse off as a result of the Plan proposed by TWUHL, as compared to the most likely Relevant Alternative.

This has required the application of a tailored approach to the no-worse off assessment, being the comparison of two different hypothetical future transactions.



Teneo's involvement

- Teneo has been engaged by TWUL since 16 Aug 23 to provide support and assistance in various contingency planning matters.
- TWUHL, TWUL's immediate parent and a guarantor of certain debts of TWUL and TWUF (organised within the WBS), has developed the Plan to provide TWUL with sufficient liquidity for a period to Sep 25 to provide a timetable to raise equity and agree a restructuring of certain debt.
- Teneo therefore agreed to an extension of its role, to include TWUHL as a client of Teneo and I received and agreed an instruction letter to facilitate this role, dated 5 Dec 24, which is included in Appendix 3.

Methodology of approach

- The Plan proposed by TWUHL is not in itself the full solution to the Group's challenges. The Board has instead concluded that this is the first step in securing a recapitalisation transaction, which the Board considers is likely to be delivered through the form of a Final RP, which it expects will conclude in or around Sep 25 (the terms of which are currently uncertain).
- Therefore, in order to assess the outcome for creditors: (i) if the Plan is sanctioned; and (ii) in the Relevant Alternative for the purposes of the "no worse-off" test, it is necessary to compare the estimated transaction proceeds and creditor returns from that Final RP to the Relevant Alternative scenario that would be the most likely to arise if the Plan were not sanctioned.
- As I will come on to, the assessed most likely Relevant Alternative to the Plan is an administration of the Company and TWUF, concurrent with a Special Administration ("SAR") of TWUL, which in turn is assessed as being expected to result in an exit from the SAR in or around Jul 26.

- I have therefore considered the impact of the effect of two future estimated transactions – that of the Final RP, and the outcome from a SAR.
- To do so, I have applied a 7-step methodology as follows:
 - Step 1 Clearly set out the scenarios being compared and agree the most likely routes to a transaction (via the Plan and Final RP route or the SAR route)
 - Step 2 Review and understand TWUL's forecasts
 - Step 3 Consider any applicable sensitivities that should be applied to TWUL's forecasts
 - Step 4 Consider the specific items that would arise in the Relevant Alternative scenario, and overlay these onto TWUL's forecasts
 - Step 5 Consider the specific items that arise in the Plan and Final RP scenario and overlay on TWUL's forecasts
 - Step 6 Take into account the independent expert valuation which has provided an indicative hypothetical business valuation at the anticipated transaction dates under the two compared scenarios
 - Step 7 Set out the creditor waterfall for distributions at the anticipated future transaction dates
- I have then taken the outputs from the above to prepare an estimated outcome for each creditor class both under the Plan and the Relevant Alternative.

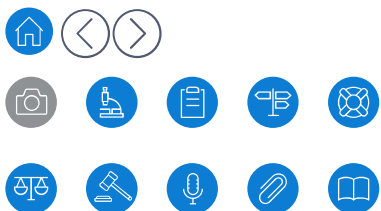
Executive Summary

Selection of Relevant Alternative

I have concluded that in the event that the Plan fails, the most likely Relevant Alternative is a SAR at TWUL and concurrent administration at TWUHL and TWUF.

Selection of Relevant Alternative

- I have considered a range of possible alternatives that might arise instead of the Plan. I believe that the most likely Relevant Alternative to the Plan is a Water SAR at TWUL and a concurrent “normal” insolvency (most likely an administration) of TWUHL and TWUF.
- I have considered seventeen alternative options and categorised these between “not feasible”, “unlikely to be feasible”, “not feasible in the time available” and “shortlisted for further consideration”. In my assessment of these:
 - Seven of these options were not feasible;
 - Two were unlikely to be feasible;
 - Four were not feasible in the time available; and
 - Four were shortlisted for further consideration.
- The four shortlisted alternatives that I explored in further detail were:
 - **Alternative interim restructuring plan** – the Group identifies an alternative transaction to extend its liquidity, which can be delivered through an alternative restructuring plan. This would likely require the business to operate in a Standstill for up to three to four months, potentially resulting in significant operational disruption and regulatory challenges. The Board of TWUL has concluded that trading through a Standstill is unlikely to be sustainable such that it would have little option but to seek protection of a SAR;
 - **WBS creditors take control** – the WBS creditors take ownership of the equity, severing TWUL and TWUF from the wider Kemble group (Kemble Water Holdings Limited and its subsidiaries, including the Group – see Appendix 4). However, we understand from Management and its advisors that the WBS creditors have shown no appetite for this as an alternative to the Plan (which has been developed in conjunction with a majority of WBS creditors) during the recent financing negotiations;
 - **Facility default/Standstill** – the Group enters into a Standstill until a comprehensive debt restructuring/M&A deal can be identified and completed. This would face the same potential operational disruption and regulatory challenges as set out in the first shortlisted option opposite and over a longer period; and
 - **SAR (trading)** – the only insolvency procedure available to a Regulated Water Company (other than a winding up following a SAR). This would unlock the ability to access HMG funding for ongoing operations/capex (as required) whilst an exit from SAR is explored.
- **Based on this assessment I concluded that in the event of a failed Plan, the Relevant Alternative was a SAR at TWUL and concurrent administration of TWUHL and TWUF.**



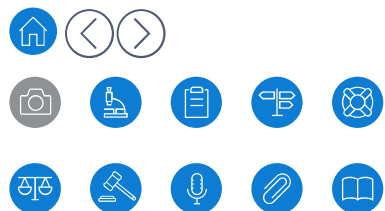
Executive Summary

Relevant Alternative overview

I have considered the most likely trading strategy and exit route in the event of a SAR of TWUL.

I believe that it would likely require a period of approximately 18 months of trading in SAR to complete a sale of the business via a Water Transfer Scheme.

This implies a future transaction date of 31 Jul 26 for an exit from SAR, to compare to the Plan and the Final RP.



Relevant Alternative overview

- In the event the Plan is not sanctioned, the Board of TWUL has concluded that trading through a Standstill is unlikely to be sustainable such that in those circumstances it would have little option but to seek the protection of a SAR. Alternatively, Ofwat and/or The Secretary of State for Environment may decide unilaterally to apply to Court for a SAR.
- Based on the work I have undertaken; I agree that this appears to be the most likely alternative option and have assumed this appointment would occur on 01 Feb 25 (i.e. 11 days after the scheduled sanction hearing).
- Around the same time, I would expect the Boards of TWUHL and TWUF to take steps to appoint administrators (or potentially liquidators) over those entities.
- However, TWUL is the only entity with any operational assets and external trade.
- As a result, the outcome for creditors from administrations of TWUHL and TWUF would be largely dependent on the outcome of the Special Administration of TWUL. Throughout this report where reference is given to the Relevant Alternative being a SAR, this refers to a SAR of TWUL and concurrent administration of the Company and TWUF.
- I would expect that the administrators of TWUHL and TWUF would liaise with the Special Administrators of TWUL in order to seek to deliver the best outcome for TWUHL and TWUF creditors. This could involve supporting the delivery of a debt restructuring at TWUL (which could be to the benefit of the Group's WBS creditors, which also have claims against TWUHL and TWUF).
- This funding requirement would be impacted by additional cost pressures during a SAR, requiring the overlay of additional costs onto Management's forecasts.
- I have identified five potential exit routes from a SAR, being:
 - i. Company rescue (likely via a Restructuring Plan);
 - ii. Whole business sale (likely via a Water Transfer Scheme);
 - iii. Break up business sale to investors (likely via a series of Water Transfer Schemes);
 - iv. Industry solution (similar to break up business sale but being a sale to other water companies); or
 - v. Nationalisation (which may need to be considered in the event all other exit options were not deliverable).
- I consider that the most likely exit route would be an exit via a whole business sale (a sale of assets and agreed liabilities to a new company, delivered via a Water Transfer Scheme).
- Having considered the complexities involved with delivering the above, including stabilisation of trading, running a sale process and then effecting a transfer, I estimate that a timeline of approximately 18 months would be required between appointment and exit.
- Based on an assumed appointment date of 01 Feb 25 this would mean that a transaction could complete on 31 Jul 26.
- ***In summary, the Relevant Alternative is considered to be a SAR appointment at TWUL on 01 Feb 25, with a trading period for 18 months funded by an HMG funding facility and an assumed transaction to exit the SAR on 31 Jul 26. I expect that the Company and TWUF would most likely enter an administration process at a similar time to a SAR of TWUL.***

SAR overview

- The statutory objectives of a SAR are (in summary) to:
 - i. Rescue the company, or transfer the business as a going concern; and
 - ii. Continue to carry out the Water Company's activities/functions pending a rescue or transfer.
- In order to achieve the above, the SAR would require funding from HMG to continue to trade as normal and operate in line with TWUL's most recent regulatory settlement with Ofwat.

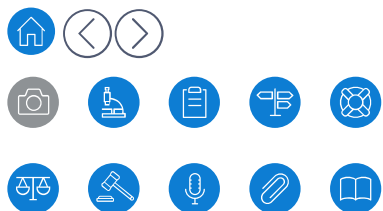
Executive Summary

Evaluation of Scenarios

To make my “no worse-off” assessment I have compared estimated future transactions in two scenarios:

1) A successful Plan, which Management expects would be followed with a final debt and equity deal implemented by a Final RP in Sep 25; and

2) Failure of the Plan, which I consider would likely lead to a SAR appointment in Feb 25 and sale of the business in Jul 26.



Evaluation of scenarios

- To make my “no worse-off” assessment I have compared two scenarios:
 - i. A successful Plan, which Management expects would be followed with a final debt and equity deal implemented in conjunction with a Final RP; and
 - ii. Failure of the Plan, which I consider would likely lead to a SAR appointment shortly thereafter.
- The following slides set out the seven detailed steps that I have followed in order to make this comparison.
- The outcome for creditors is inherently uncertain under both outcome scenarios, because the range of future events that may impact both outcomes is considerable.
- I have therefore followed the methodology set out previously, to collate the necessary information and compare both outcomes.

Step 1 – clearly set out the scenarios

- I started by clearly defining the two most likely routes to a transaction in the above scenarios:

Scenario 1

- The terms of the funding support introduced by the Plan include an initial £1.5bn, which was sized with the intention of providing sufficient liquidity until c.Sep 25.
- A potential further £1.5bn of support is available to extend available liquidity into 2026, to allow the Group to fund an appeal to the Competition Markets Authority (“CMA”) in respect of the FD, if required (but subject to a number of conditions).
- Through discussions with the Group’s advisors (Rothschild & Co and Linklaters), I understand that the likely transaction date is expected to be Sep 25, noting:
 - The additional funding to trade beyond that date is not automatic and there are various conditions;
 - The current equity raise process anticipates a transaction in 2025; and
 - There is the potential for a transaction in Sep 25 to be structured to deal with any future upside to the Group from a successful CMA appeal.

Scenario 2

- The Plan fails, resulting in a SAR as at 01 Feb 25.
 - Given the dynamics in this case, and based on my experience, I consider that there would be a period of approximately 18 months to a sale of the business.
 - Consequently, the date for a transaction that I have assumed is 31 Jul 26.
- I therefore need to consider the costs to get to a transaction under each scenario, the quantum of creditor claims at that date, as well as the transaction outcome itself.
- #### Step 2 – understand TWUL’s forecasts
- I reviewed the TWUL forecasts in order to:
 - Support my understanding of the position of the business, and the financial challenges it faces;
 - Calculate the funding expected to be required to get to a transaction in each of Scenario 1 and Scenario 2; and
 - Understand the key drivers to the independent expert valuation, prepared by Mr Eraj Weerasinghe, given its critical impact on my findings.
 - These forecasts reflect the dynamics of the water industry, in which every five years Ofwat determines the amount of revenue, allowable expenditure and Regulatory Capital Value (“RCV”) growth that water companies should deliver across an AMP.
 - Ofwat’s Draft Determination (“DD”) for AMP8 was published on 11 Jul 24 and incorporates a lower level of revenue allowances and cost allowances than had been sought by TWUL.
 - As a result, TWUL’s forecasts have been prepared on two bases:
 - Base Case – TWUL’s business plan, prepared in response to the DD, and which included requests for greater cost (both Opex and Capex) recovery and also a higher WACC (the allowed return on assets) than proposed within the DD, alongside alignment on amended ODI arrangements (operational delivery incentives) for AMP8; and

Executive Summary

Evaluation of scenarios

I have applied overlays to the Group's forecast to reflect:

- risks associated with regulatory fines and regulatory remedial action (Step 3);
- additional costs estimated to arise in a SAR (Step 4); and
- additional debt service costs associated with the proposed Super-Senior funding facility (Step 5).

Evaluation of scenarios (cont'd)

- Sensitised Case – TWUL's business plan, adjusted to reflect the lower levels of revenue and regulatory capital allowances included within the DD.
- These two cases are therefore believed by Management to provide the "bookends" of the potential range of outcomes within Ofwat's FD, which is due to be published on 19 Dec 24.

Step 3 – consider any applicable sensitivities

- TWUL is facing a number of risks associated with regulatory fines and regulatory remedial action, the costs of which are not certain at this stage but could be material.
- TWUL set these risks out in its RNS announcement and Environmental Compliance and Regulatory Investigation presentation both dated 25 Oct 24.
- Due to the uncertainty, these risks have not been included in TWUL's forecasts but could ultimately impact cash flow in the pre and post transaction periods.
- Based on discussions with Management, I have therefore factored in those risks that could impact cash flow prior to any transaction as a cost overlay.
- Most of the risks fall in the post transaction period (i.e. beyond Jul 26). These have been reflected in the independent expert valuation.

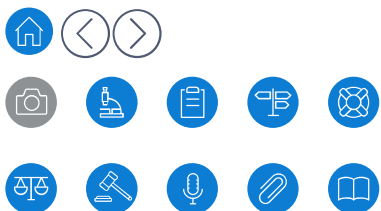
Step 4 – consider the specific items that arise in the SAR Scenario

- I have considered what additional costs are likely to be crystallised in the event of a SAR.
- The SAs would be required to achieve their statutory objectives of continuity of service and to exit the SAR, and therefore:

- Maintain levels of project delivery agreed with Ofwat (and therefore spending);
- Ensure the confidence of the supply chain and employees in the business;
- Ensure continuity of services to customers;
- Adhere to regulatory requirements; and
- Ensure stability of the ongoing business.
- During this period there could be an increased level of perceived risk associated with TWUL as a counterparty.
- I have therefore applied overlays to TWUL's forecasts, to reflect my expectation that the cost of running the business will increase in a SAR, including that:
 - Suppliers may demand better payment terms/pricing;
 - The SA would incur additional professional fees;
 - It may become more difficult to attract and retain employees; and
 - Bad debt levels may increase, as customers view the SAR as an opportunity/reason to withhold payments.
- I have estimated that there could be an additional £1.1bn of costs in an 18-month SAR trading period. I also consider that any buyer is unlikely to be able to "switch off" these additional costs straight away and that there would be an unwind period over one-to-two years. I estimate that the cost of unwind could be an additional c.£0.5bn.
- I have also considered the cost of any HMG funding facility required to fund the SAR period based on a range of data points, including my experience in the Bulb SAR, together with the likely requirement that funding provided by HMG in the form of rescue aid would attract a "market rate" of interest in line with HMG requirements. I have assumed that an interest rate of 9.5% would apply to HMG debt in a SAR.

Step 5 – consider the specific items that arise in the Plan Scenario

- There are two specific overlays that are required on top of the TWUL operating forecasts to reflect the Plan terms:



Executive Summary

Evaluation of scenarios

Forecast outcomes to creditors have been calculated by reference to:

- An independent valuation prepared by Mr Eraj Weerasinghe of Kroll for these purposes (Step 6); and
- Forecast creditor balances at each transaction date (Step 7).

Evaluation of scenarios (cont'd)

Step 5 – consider the specific items that arise in the Plan Scenario (cont'd)

- Firstly, the Plan allows for debt interest service on the existing debt, and payments on open hedging arrangements, to continue until the earlier of Sep 25 or the successful Final RP; whereas this would not continue in a SAR scenario.
- Secondly, the Super-Senior funding terms need to be factored into the analysis. This includes the interest rate and Make-whole provisions of the new Super-Senior facility, alongside consent and other fees for the new facility and existing A and B class holders.
- I have taken the final agreed Super-Senior Term Sheet as at 25 Oct 24 to include in my analysis.

Steps 1-5 – summary of findings

- The analysis I have undertaken as part of Steps 1-5 resulted in an estimated funding requirement to a transaction, in both the Base and Sensitised Case, as follows:

Scenario 1 (the Plan and Final RP) – funded by Super-Senior facility up to Sep 25

- Base Case: £1,503m
- Sensitised Case: £1,743m

Scenario 2 (SAR) – funded by HMG funding up to Jul 26

- Base Case: £3,390m
- Sensitised Case: £4,118m

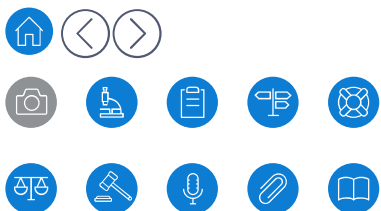
- These estimated funding requirements are not directly comparable at this stage, given the different assumed timescales to effect a transaction.
- I note that in the Base Case the Super Senior funding requirement is in line with the initial proposed £1.5bn facility together with some use of the £200m cash headroom.

Step 6 – Independent Expert Valuation

- In preparing this report, I have had the benefit of seeing the independent expert report of Mr Eraj Weerasinghe. This report contains the following valuations:
 - Current Enterprise Value (“EV”) of TWUL assuming a market participant gearing at the date of the Plan.
 - Indicative hypothetical EV of TWUL as of 30 Sep 25 assuming the Plan and Final RP are sanctioned (i.e. Scenario 1)
 - Indicative hypothetical EV of TWUL as of 31 Jul 26 assuming exit from a SAR (i.e. Scenario 2).
- I have taken the Mid-point of each of the indicative hypothetical business valuations and applied this to the creditor waterfall at each transaction date. The valuations from Mr Weerasinghe’s report are set out in the table below:

£bn	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)
	Base Case		Sensitised Case	
Low	15.4	17.4	12.0	14.1
Mid-point	16.6	18.7	12.6	14.7
High	17.9	20.0	13.2	15.3

Source: Mr Weerasinghe’s independent expert valuation report dated 11 December 2024



Executive Summary

Evaluation of scenarios

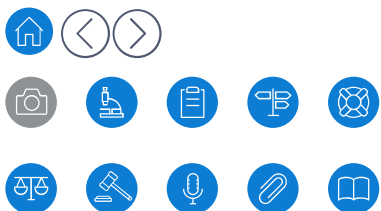
Forecast outcomes to creditors have been calculated by reference to:

- **An independent valuation prepared by Mr Eraj Weerasinghe of Kroll for these purposes (Step 6); and**
- **Forecast creditor balances at each transaction date (Step 7).**

Evaluation of scenarios (cont'd)

Step 7 – Creditor Waterfall

- The creditor base is complex, and the treatment of certain creditors differs between the Plan and SAR scenarios. For example:
 - Certain liabilities only arise in the SAR scenario – e.g. hedge terminations, loan default interest, pre-existing debt Make-whole obligations and HMG funding;
 - Certain creditors may not be paid during a SAR period – e.g. pension deficit payments, any finance debt service payments, any hedge payments; and
 - The ranking of certain creditors is proposed to be altered in the Plan – e.g. certain currency hedge payments.
- Based on a review of the WBS documentation and discussions with Linklaters, I have analysed the financial creditors on a facility-by-facility basis to assess the creditor base at each relevant date and to understand the treatment of each class of financial creditor under the Plan and Final RP and SAR scenarios.
- As part of this analysis I have also taken TWUL's forecasts together with the sensitivities and specific overlays under each scenario to understand the expected draw-down on the proposed Super-Senior facility in the Plan and Final RP scenario and the level of funding required from HMG in the SAR scenario (as outlined in Steps 1-5 opposite).
- I have then applied the independent expert valuations to provide an indicative range of outcomes for each creditor class under the Plan and Final RP and SAR scenarios.



Executive Summary

Estimated outcomes and conclusions

Based on the work I have undertaken I have reached the conclusion that the Plan and Final RP will result in no creditor class being worse off than in the Relevant Alternative.

Estimated Outcomes

- I have summarised the outcome for each creditor class under the Plan and Final RP scenario (Scenario 1) and the Relevant Alternative SAR scenario (Scenario 2), as set out in the table below, which reflects the amount of the relevant claim that each creditor class would have under the alternative scenarios that is expected to be recovered at each transaction date.

	Base Case		Sensitised Case	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
1) Liquidity Facility	N/A	N/A	N/A	N/A
2) Interest Rate and Index Hedges	100.0 p/£	100.0 p/£	100.0 p/£	100.0 p/£
3) Currency Hedges	100.0 p/£	74.4 p/£	100.0 p/£	45.3 p/£
4) Class A Debt Make-Whole	84.0 p/£	71.5 p/£	58.5 p/£	47.3 p/£
5) Class A Debt Non-Make-Whole	83.7 p/£	76.1 p/£	57.7 p/£	49.1 p/£
6) Class B Debt	3.5 p/£	0.0 p/£	3.5 p/£	0.0 p/£
7) Subordinated Creditor	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£

Source: Teneo analysis

Conclusions

- My analysis shows that:
 - There is no distribution to the Liquidity Facilities as these are either cancelled or undrawn;
 - The Super-Senior funding or HMG funding is forecast to achieve a full recovery in Scenario 1 and Scenario 2 respectively (not shown above as not a creditor class in the Plan);
 - The Interest Rate and Index Hedge liabilities are forecast to achieve a full recovery in both scenarios;
 - Given their elevation in the waterfall, the Currency Hedge liabilities are forecast a full recovery in Scenario 1. However, in Scenario 2, they are projected to only achieve a partial recovery as they would rank alongside Class A principal repayments;
 - The Class A Debt categories receive a partial recovery;
 - The only recovery to Class B occurs in Scenario 1 and is solely attributable to the cash interest and fees received as part of the Plan and Final RP; and
 - No value from any source is forecast for the TWL subordinated debt.
- Consequently, based on the work I have undertaken, I have reached the conclusion that the Plan will result in no creditor class being worse off based upon their claim at the time of a transaction than in the Relevant Alternative.





Approach

Introduction	16
Methodology	17



Approach

Introduction

This Report has been prepared in accordance with the detailed Instruction Letter received from Linklaters LLP dated 5 Dec 24

I do not consider that any interest affects my suitability to give expert evidence on any issue on which I have given evidence.



My independence and Teneo's engagement

- As set out below, my employer (Teneo) has been engaged by TWUL since Aug 23, primarily focussed upon providing advice and assistance in developing contingency plans in the event of an insolvency of TWUL.
- These plans provide relevant background to the necessary comparisons undertaken within this report and therefore have no impact upon my independence in preparing this report.
- I confirm that I have no conflict of interest. I do not consider that any interest which I have disclosed affects my suitability to give expert evidence on any issue on which I have given evidence, and I will advise the party by whom I am instructed if, between the date of this report and the sanction hearing, there is any change in circumstances which affects this statement.

Involvement of Teneo

- Teneo has been engaged by TWUL since 16 Aug 23 to provide support and assistance in various contingency planning matters.
- TWUHL is TWUL's immediate parent and a guarantor of certain debts of TWUL and TWUF. These entities are organised within a WBS. TWUHL has developed the Plan to provide TWUL with sufficient liquidity for a period to Sep 25 to provide a timetable to raise equity and agree a restructuring of certain debt.
- The scope of Teneo's role has developed over the course of its engagement to include work to prepare for this report and in support of the Plan (see below).
- Notwithstanding Teneo's engagement, I remain comfortable that I am able to provide the Court with objective evidence, with the requisite degree of independence in accordance with my duty to the Court and the requirements of CPR Part 35.

Scope of work and Instructions

- Preparation of a Relevant Alternative report ahead of the Convening hearing on 17 Dec 24, including:
 - Consideration of the "Relevant Alternative" to the Plan – including a discussion as to the various alternative options that have been considered in the event the Plan is not successful;
 - Details of the key analysis undertaken and the outcomes that are estimated to arise in the Relevant Alternative; and
 - An assessment of whether classes of creditors, as relevant, would be likely to be worse off under a successful Plan as compared with the Relevant Alternative.
- Specifically, this Report has been prepared in accordance with the detailed Instruction Letter received from Linklaters LLP dated 5 Dec 24 (enclosed at Appendix 3) for the sole purpose of assisting and advising the Court.

Information Sources

- At Appendix 2 is a list of sources of information that I have had access to and relied upon in preparing this report. This is broken down into:
 - i. Information received by me and which I have relied upon for the purpose of preparing this report; and
 - ii. A list of those individuals from the Group together with their roles that I have spoken to for the purposes of preparing this report.
- I have relied upon the information provided to me, which I assume is sufficiently accurate for my analysis. In particular:
 - I have not audited or verified the accuracy of financial data provided to me or the hypothetical valuations from Mr Weerasinghe of Kroll Advisory Ltd;
 - I have not reviewed the detailed underlying assumptions to the financial data provided to me;
 - I assume that there have been no material changes to the financial data; and
 - I have been assisted in preparing the analysis in this report by a team from Teneo.

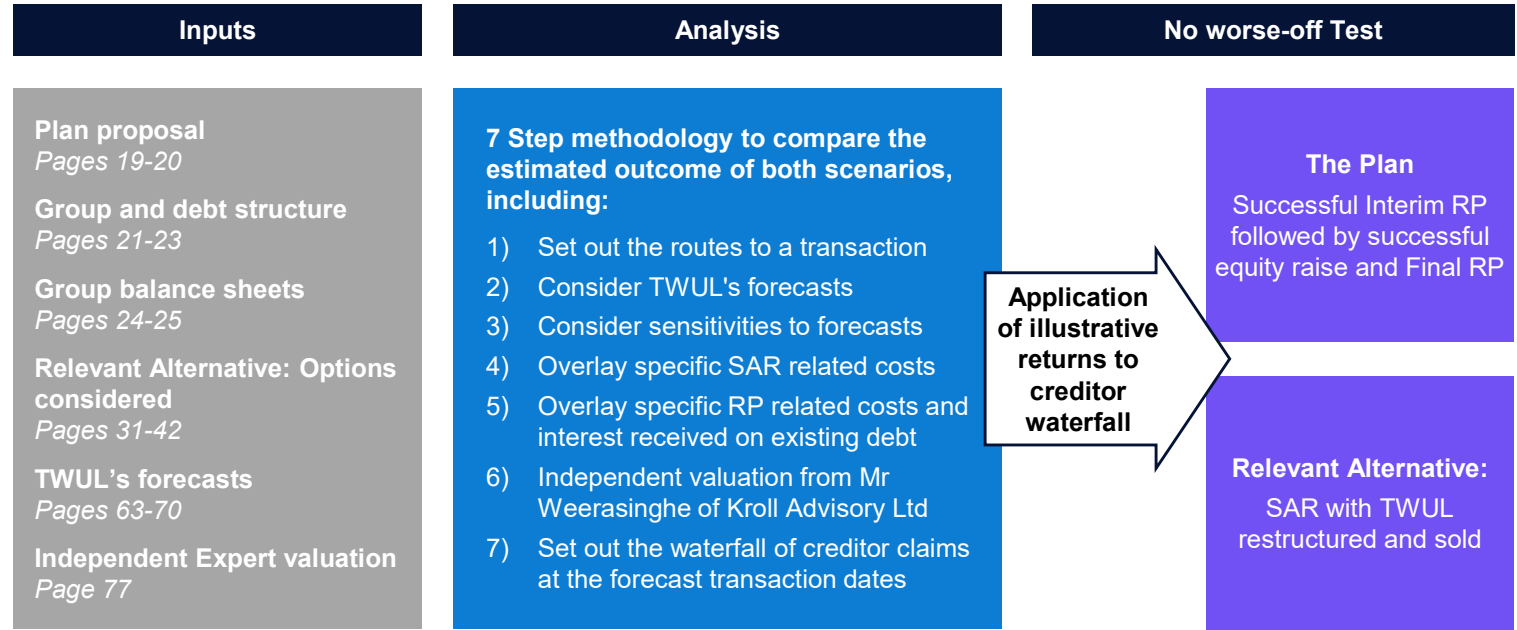
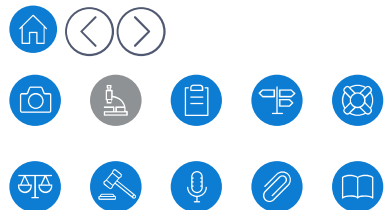
Approach

Methodology

The Board has concluded that the Plan is the first step in securing a longer-term solution likely to be delivered via a Final RP.

This has required the application of a tailored approach to the no-worse off assessment, being the comparison of two future estimated transactions.

I have established a seven-step methodology which provides the building blocks for this assessment.



Methodology

- The Plan by its nature is not in itself the solution. The Company has concluded that this is the first step in securing a longer-term solution likely to be in the form of another Restructuring Plan in Sep 25 (the terms of which are currently uncertain).
- Therefore, in order to make a “no worse-off” assessment, it is necessary to compare the estimated transaction proceeds in that later plan, to the estimated transaction proceeds in a future sale in the Relevant Alternative scenario.
- Out of necessity, this has required the application of the no-worse off assessment by reference to two different future estimated transactions.
- The flow chart above sets out the process that has been undertaken to make this assessment.
- This approach relies upon hypothetical valuations of the business at future dates, prepared by Mr Eraj Weerasinghe of Kroll Advisory Ltd for the sole purpose of assessing the Relevant Alternative to the Plan.
- Detailed assumptions are set out later in this report.

Assistance from Teneo employees

- In preparing this report, I received assistance from a number of members of the Teneo team. This has included specialist input from my colleagues David Gard (who is a restructuring professional with significant experience in regulated businesses and hedging) and Matt Smith (who is an experienced Insolvency Practitioner, has advised on a number of UK Restructuring Plans, and is one of my joint appointees on Bulb Energy).
- The remainder of the report has therefore been drafted in the first person plural, as it sets out the work done by both me and my team.
- This assistance from my team was provided under my supervision and I am satisfied that this report reflects my expert opinion.

Restructuring Plan overview

Background and Plan summary	19
The Group	21
WBS debt facilities: Overview	22
WBS debt facilities: Standstill arrangements	23
Balance sheets	24
Plan creditor classes	26
Impact of the Plan on creditor classes	28



Restructuring Plan overview

Background and Plan summary

The Group's ability to raise new capital has been restricted, due to various macro-economic, performance and regulatory factors. This in turn has resulted in the Group's liquidity position deteriorating.

The Group has taken steps to ensure it had sufficient liquidity to: (i) reach the FD; (ii) implement any agreed recapitalisation transaction following the FD; and/or (iii) initiate and complete a CMA Appeal (if required).



Overview

- The Company was incorporated on 30 Mar 07 and is the Topco within the Group (i.e. TWUHL and its subsidiary undertakings, TWUL and TWUF. TWUHL's principal activity is to: (i) hold the shares in TWUL; and (ii) guarantee the obligations of TWUL and TWUF under the Finance Documents. It has no employees nor any physical assets (other than the shares in TWUL).
- The Group is the largest provider of water and sewerage services in the UK, serving approximately 16m customers across London and the Thames Valley. Its business is comprised of:
 - The appointed business, which consists of regulated water and sewerage undertaker activities; and
 - The permitted non-appointed business, which consists of third-party discharges to sewage treatment works and other commercial activities, including property searches and treatment of waste from private receptacles not linked to the Group's network.
- The services are delivered through TWUL, regulated by Ofwat, in accordance with its Licence. In addition to its appointed and permitted non-appointed business activities, TWUL's other principal activities are as issuer, borrower or hedge counterparty (as the case may be) of certain of the Class A/Class B Debt and Hedging Agreements.
- TWUF's principal activities are as issuer, borrower or hedge counterparty (as the case may be) of the Liquidity Facilities and certain of the Class A and Class B Debt and Hedging Agreements.
- The debt issued by TWUL and TWUF, and guaranteed by TWUHL, is the subject of a WBS arrangement that was established in 2007 (see Kemble Group structure in appendix 4).
- TWUHL is a wholly owned direct subsidiary of TWL, which is indirectly wholly owned by Kemble Water Holdings Limited, which is the ultimate parent company of the Group.

Liquidity challenges

- The Group's ability to raise new capital has been restricted, as a result of various macro-economic and regulatory factors. This in turn has resulted in the Group's liquidity position deteriorating.
- The Kemble Group's Shareholders had previously: (i) agreed to provide £750m equity funding, of which £500m was to be provided in Mar 24, and (ii) acknowledged the possibility of further medium-term equity investment, in the region of £2.5bn. However, this funding was subject to certain conditions, including preparation of a business plan that was supported by regulatory arrangements. The Shareholders, based on the feedback provided by Ofwat before its DD was published, determined that the expected regulatory arrangements for the period made the business plan "uninvestable" and, therefore, the funding conditions were not satisfied and new equity funding was not provided.
- On 20 Sep 24, TWUL announced that the Group's liquidity was forecast to expire in May 25, assuming that undrawn Class A and Class B Debt committed facilities and Liquidity Facilities were drawn. However, without creditor consent to release cash reserves or access the undrawn Class A and B Debt committed facilities, liquidity would expire at the end of Dec 24.
- Crucially, this means that the Group's liquidity runway could expire prior to the Ofwat FD for AMP8 being published. Even if the FD was published within the liquidity runway, it would likely take several months for any equity funding transaction to be implemented.
- As a result of the shortened liquidity runway, the Group has taken steps to ensure it has sufficient liquidity to:
 - Reach the FD;
 - Implement any agreed recapitalisation transaction following the FD; and
 - (if required) initiate and complete an appeal to the CMA in respect of the FD.
- This has resulted in the development of a proposed "Interim Platform Transaction", as set out overleaf.

Restructuring Plan overview

Background and Plan summary

Following negotiations, on 25 Oct 24, TWUL announced that it was proposing a transaction to extend its liquidity runway, which includes up to £3.0bn of new money, in addition to release of certain cash reserves and a two-year debt maturity extension.

The purpose of the Interim Platform Transaction is to provide the Group with a stable platform to pursue an equity injection agreement and Final RP.



Interim Platform Transaction

- Since Sep 24, TWUHL and TWUL have been engaged in extensive discussions to determine an interim solution to extend the Group's liquidity runway and provide a stable platform to implement a more holistic solution.
- These discussions have taken place between Management and its advisors, Rothschild & Co and Linklaters, with an ad hoc group of creditors represented by Akin Gump Struss Hauer & Feld LLP and Jeffries Group LLC, and a group of lenders represented by Allen Overy Shearman Sterling LLP and Perella Weinberg UK Limited.
- Further creditor groups have also emerged – a hedge counterparty grouping of two banks represented by Simpson Thacher & Bartlett LLP, and a Class B group represented by Quinn Emanuel Urquhart & Sullivan LLP and DC Advisory.
- Following the negotiations, on 25 Oct 24, TWUL announced its proposals for an Interim Platform Transaction which would provide the Group with a stable platform so that it:
 - i. Can reach the FD publication and complete any recapitalisation transaction following the FD; and
 - ii. If thought necessary, launch an appeal of the FD to the CMA.
- The Interim Platform Transaction is to be delivered through:
 - The Plan proposed by TWUHL, commencing with a convening hearing on 17 Dec 24, and with a proposed effective date of 31 Jan 25;
 - The agreement of an up to £3bn super senior funding facility, as set out in an agreed term sheet (and fully backstopped by certain creditors under a Backstop Agreement);
 - Proposed waivers in relation to the Security Trust and Intercreditor Deed ("STID"), including permitting the release of cash reserves and the launch of the Plan; and
 - A Transaction Support Agreement ("TSA"), which commits signatories to supporting and facilitating the various elements of the transaction, and to vote in favour of the Plan and STID proposals.

- On the 18 Nov 24 TWUL announced that the STID proposals dated 25 Oct 24 and referred to opposite had been approved, which include the release of certain reserve funds for TWUL to use for operational purposes and which crucially extends the available liquidity to enable the Plan to be effected.
- We understand from Linklaters that the changes to the STID will fall away in the event that the TSA is terminated. The TSA can be terminated by a requisite majority of consenting creditors if the Plan is not sanctioned by 31 Jan 25, or the TSA will automatically terminate if the Interim Platform Transaction has not been implemented by the long stop date of 28 Feb 25 (if not extended).

The Plan

- If successful, the Plan impacts will include (in summary):
 - The injection of £1.5bn of new Super-Senior Funding to address liquidity requirements in the near to medium term (with a further £1.5bn available, subject to certain conditions, including an appeal to the CMA following receipt of Ofwat's FD); and
 - The extension of the Group's debt maturities by two calendar years.
- By doing so, the Board believes it will avoid the risk of the Group companies having to file for SAR or administration (as applicable).
- The timetable for the key dates related to the Plan (as currently scheduled) are as follows:
 - A convening hearing is currently listed before the Court for 17 Dec 24;
 - Creditor meetings in the week commencing 13 Jan 25;
 - A sanction hearing is currently listed before the Court for 20 Jan 25; and
 - Effective date expected to be 31 Jan 25, as set out in the TSA.

Restructuring Plan overview

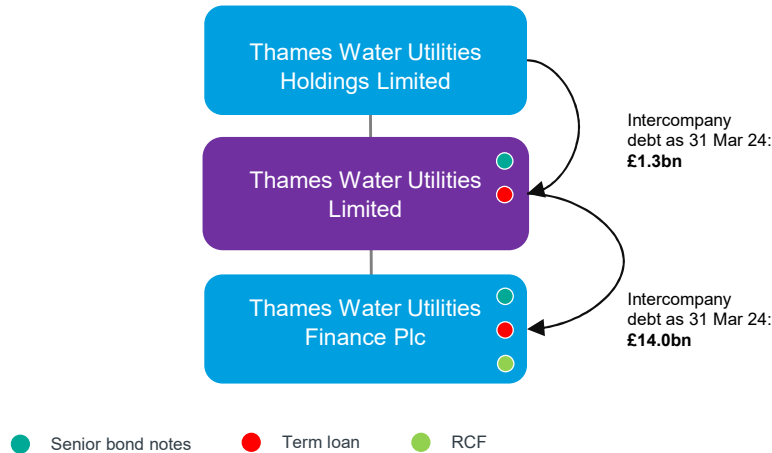
The Group

The Group had drawn c.£16.3bn of debt under the WBS facilities, supported by a further c.£1.7bn of hedge liabilities at its last financial year end.

The majority of this debt sits within TWUF and has been guaranteed by both TWUHL and the main operating company TWUL.

The Plan has been proposed by TWUHL, which has provided both cross-guarantees and a deed of contribution in respect of the WBS debt held by TWUL and TWUF.

Group Structure¹



Note 1: The Group sits within the wider Kemble Group, which owns the shares in TWUHL

Borrowings as at 31 Mar 24

£'m		TWUL	TWUF	Total
Class A				
Bank loans / RCF	● ●	1,118	1,060	2,178
Private placements	●	1,289	428	1,716
Bonds	●	-	10,853	10,853
		2,406	12,340	14,747
Class B				
Bank loans / RCF	● ●	541	569	1,111
Bonds	●	-	249	249
		541	818	1,360
Interest payable		243	n/a	243
Total		3,190	13,158	16,349

Source: Thames Water Annual Report 2024

Note:

TWUL and TWUF have drawn a further £0.4bn of net funding since the Mar 24 year end, totalling £16.7bn in the Aug 24 management accounts.

There is a £1.15bn difference noted between the TWUF bond position as reported in the consolidated accounts and the TWUF standalone Balance Sheet as seen later in this section. This is the fair value uplift from the transfer of bonds from Thames Water Utilities Cayman Finance Limited (TWUCF) to TWUF. These bonds were transferred at fair value and the fair value uplift is eliminated on consolidation hence the difference between the borrowings positions noted above.

Overview

- As set out previously, the Group has raised funding secured over the Group's assets by way of a WBS-structure.
- These funding arrangements cover the following three legal entities:
 - TWUHL:** the holding company of TWUL, with no external debt. This entity has guaranteed the WBS debt, and granted the WBS creditors security over the shares in TWUL (allowing them to take direct control of TWUL in an enforcement);
 - TWUL:** the main trading entity, which holds the Ofwat licence and all assets/resources required to supply customers with water and wastewater services. TWUL only directly holds a relatively small proportion of the secured debt, although has guaranteed the full WBS Debt; and
 - TWUF:** the financing entity in the WBS structure, which holds the majority of the WBS Debt, lent to TWUL via an intercompany loan.
- These Group companies do not guarantee any debt of the Kemble Group companies outside of the Group structure.
- As set out opposite, the various drawn facilities within the WBS totalled c.£16.3bn as at the last financial year end of 31 Mar 24. This was supported by a range of hedging products, with an additional mark-to-market exposure of c.£1.7bn as at 31 Mar 24.

TWUHL Deed of Contribution

- Prior to the Convening Hearing, Management expects that TWUHL will enter into a deed of contribution in favour of TWUL and TWUF. This will require it to contribute any amounts that are paid by either TWUL or TWUF towards the obligations under any of the WBS Debt.
- Once this deed is in place, any amendment of TWUHL's obligations to the WBS creditors will also impact the WBS creditors' claims against both TWUL and TWUF.
- As a result, the Plan can be used to amend the WBS creditors rights across all three entities within the WBS.



Restructuring Plan overview

WBS debt facilities: Overview

The Plan seeks to amend the rights of the WBS Creditors.

This will allow the Group to implement aspects of the Interim Platform Transaction which would otherwise require changes to be made to the WBS structure through seeking the support of a qualifying majority of each relevant instrument within the WBS structure.



WBS Debt

- The WBS facilities are governed by a range of agreements, including a Master Definitions Agreement, Common Terms Agreement, Security Trust and Intercreditor Deed, as outlined to us by the Group's legal advisors, Linklaters.
- These set out the terms of the claims of the Group's creditors, their rights relative to each other, payment priorities and security.
- The Plan seeks to amend the WBS creditors' rights under these agreements, and in particular those arising under the following debt instruments:
 - Liquidity Facilities, comprising the Class A DSR Liquidity Facility, the Class B DSR Liquidity Facility and the O&M Reserve Facility;
 - The Interest Rate and Index Hedging Agreements;
 - The Currency Hedging Agreements;
 - The Class A Make-Whole creditors, comprising certain Class A holders with Make-whole provisions in the event of an insolvency;
 - Class A Non-Make-whole Debt, comprising the Class A RCFs, Class A TLs, Class A Notes and Class A Bonds which do not have a Make-whole trigger in the event of insolvency;
 - Class B Debt, comprising the Class B RCFs, Class B TLs and Class B Bonds; and
 - The Subordinated Loans;together, the "Plan Debts"
- The amendments being sought under the Plan will allow the Group to implement certain aspects of the Interim Platform Transaction more efficiently than would otherwise be managed via an instrument-by-instrument consent process.
- Further analysis of the Balance Sheet positions of TWUHL, TWUL and TWUF can be seen later in this section. The debt issued by entities within the WBS structure is secured by all the assets in the WBS (subject to certain key exclusions) and there are cross-guarantees in place, as well as covenant protections to prevent cash exiting the Group.

WBS Security

- The WBS facilities include a shared security package, granted in favour of the Security Trustee on behalf of the WBS Creditors.
- This security includes debentures incorporating fixed and floating charges over all three companies within the Group.
- The Instruction Letter explains that whilst TWUL has publicly reported that the vast majority of its assets are Protected Land (and, as such, would be excluded from the security), the proceeds of Protected Land are purported to be subject to the security interests created by the Security Document.
- On that basis, for the purposes of this report we have been instructed to assume that "all of the Thames Water Group's assets are subject to the floating charge created pursuant to the Security Agreement" (as set out in the Instruction Letter).
- We consider this to be an appropriate assumption in the circumstances, having confirmed with Linklaters that this assumption arises from the degree of control Lenders have over the Company's assets that are the subject of the Security Agreement.

Restructuring Plan overview

WBS debt facilities: Standstill arrangements

In the event that the Security Trustee is notified of a default on the WBS facilities, the Group would automatically enter into a Standstill, resulting in the introduction of a Cash Manager and restriction on payments.

This would initially run for a period of 18 months, unless terminated by the agreement of 66% or more of the WBS creditors.

Standstill

- The WBS structure includes provisions for a Standstill, which is triggered by the notification of an Event of Default (“EOD”) by any secured creditor (including TWUF) – who have an obligation to do so – to the Security Trustee.
- We have discussed these provisions with Linklaters and summarised them below.
- During a Standstill Period:
 - The WBS creditors are unable to accelerate the WBS security (although they could still enforce the charge over TWUL’s shares); and
 - The Group would cease to control its bank accounts, which would instead be operated by the Group’s account bank in its capacity as Standstill Cash Manager (see opposite).
- The Standstill would initially last for a period of 18 months, during which it could be terminated following:
 - i. TWUL entering into a SAR (which automatically terminates Standstill);
 - ii. any steps taken to place TWUF into an insolvency process (which also automatically terminates Standstill);
 - iii. the approval of 66% of the creditors (if not terminated, the Standstill would automatically be extended, although going forward the proportion of creditors required to terminate the Standstill would reduce below 66%); or
 - iv. a waiver by a majority of WBS creditors of the EOD which lead to the Standstill.
- In the event that a Standstill was terminated by way of route (iv) above (provided that EOD related to TWUL or TWUF), the Group could revert to business as usual.
- However, in the event that a Standstill was terminated by way of routes (i), (ii) or (iii) above, or where the Standstill had arisen as a result of an EOD of TWUHL, upon the exit from Standstill, the Standstill Cash Manager’s role would continue.

Cash Manager

- As part of its role, the Standstill Cash Manager is required to prepare 12-month forward looking receipts and payments forecasts each month.
- To the extent that forecast receipts are insufficient to make all forecast payments over the period, the Standstill Cash Manager applies receipts against a waterfall schedule of payment priorities/categories (Common Terms Agreement, Schedule 11, paragraph 9.3).
- The first category of the waterfall is operating and budgeted maintenance costs, which includes maintenance Capex, but excludes Enhancement Capex (and Enhancement Capex is not included elsewhere in the waterfall). Enhancement Capex is the expenditure made by TWUL to improve the quality of assets and/or augment capabilities.
- The Standstill Cash Manager also has access to the Group’s Debt Service Reserve (“DSR”) and Operation and Maintenance (“O&M”) reserve liquidity facilities (£550m):
 - O&M reserve: £252m;
 - Class A DSR: £253m; and
 - Class B DSR: £44m.
- Where there are insufficient funds from receipts generated by the business, the O&M reserve can be used for payments of operating and budgeted maintenance costs. The O&M reserve cannot be used to make payments to other items in the waterfall. However, the Class A/B liquidity facilities can be used to cover items senior in the waterfall to the A/B debt service.

Operational impact

- Based on the analysis we have undertaken, we expect that in a Standstill, operational and maintenance costs would be covered, debt service would only be partially covered (even with the use of the reserves) and no payments would be available for Enhancement Capex suppliers.



Restructuring Plan overview

Balance sheets

As at 31 Mar 24, TWUL had non-current assets of £21.9bn, reflecting a regulatory capital value of £19.9bn.

Against this, the WBS entities have borrowed c.£16.3bn of bank loans, private placements and bonds, with a further c.£1.7bn of hedge fair value liabilities.

WBS Balance Sheets for the y/e 31 Mar 24

£'m	TWUHL	TWUL	TWUF
Non-current assets			
Intangible assets	-	234	-
Property, plant and equipment	-	19,372	-
Investment property	-	2	-
Investment in subsidiary	-	208	-
Right-of-use assets	-	37	-
Derivative financial assets	-	294	62
Intercompany loans receivable	-	1,201	12,733
Prepayments	-	493	1
Insurance and other receivables	-	39	-
Pension asset	-	33	13
	-	21,912	12,808
Current assets			
Inventories	-	23	-
Intercompany loans receivable	63	351	2,586
Trade receivables	-	400	-
Contract assets	-	296	-
Prepayments	-	45	2
Insurance, other receivables and inter-group	-	63	-
Derivative financial assets	-	29	4
Cash and cash equivalents	-	1,280	2
	63	2,487	2,593
Liabilities			
Contract liabilities	-	(1,173)	(5)
Trade and other payables	-	(1,056)	-
Bank overdraft	-	(127)	-
Borrowings	-	(2,978)	(14,568)
Borrowings (owed to Group undertakings)	(4,743)	(13,981)	(289)
Lease liabilities	-	(53)	-
Derivative financial liabilities	-	(1,413)	(323)
Provisions for liabilities and charges	-	(275)	-
Deferred tax	-	(1,328)	-
Pension deficit	-	(152)	-
	(4,743)	(22,535)	(15,185)
Net assets / (liabilities)	(4,679)	1,864	217

Source: Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and Thames Water Utilities Finance Plc

Note: The above balance sheets reflect the latest financial year end for the three companies in the Group (Mar 24). Whilst more recent interim accounts are available for TWUL and TWUF as at 30 Sep 24, no comparable information has been prepared for TWUHL. This does not affect the analysis later in this Report, which has been based upon a roll-forward of debt balances

WBS Balance Sheet Review

- The table opposite sets out the Balance Sheets for the three entities within the Group, as at 31 Mar 24 (latest available balance sheet for all three entities, therefore used for consistency). This shows that:
 - TWUHL holds minimal assets, having recently written down its investment in TWUL to zero, leaving only a small intercompany debtor (£63.0m). TWUHL also holds two intercompany creditor balances, owed to TWL (£3.4bn) and TWUL (£1.3bn);
 - TWUL holds all of the Group's PPE (£19.4bn), together with various trading balances. This has largely been funded by £14 bn of intercompany debt (primarily due to TWUF), and £3.0bn of direct lending under the WBS; and
 - TWUF's balance sheet reflects its role as a financing entity, holding the majority of the WBS Debt (c.£14.6bn).
- Key balances to highlight across these balance sheets are:

1: External Borrowings

- TWUL and TWUF's individual balance sheets include external borrowings of £17.5bn. This consists of secured bank loans, RCFs, Term Loans and Bonds as well as private placements.
- This is £1.1bn more than was reported in TWUL's consolidated balance sheet (and set out in the WBS facilities section of this report earlier), due to a historical fair value uplift from the transfer of bonds from Thames Water Utilities Cayman Finance Limited (TWUCF) to TWUF (which is eliminated on consolidation).
- These amounts are secured within the WBS structure, and cross-guaranteed by TWUHL.



Restructuring Plan overview

Balance sheets

As at 31 Mar 24, TWUL had non-current assets of £21.9bn, reflecting a regulatory capital value of £19.9bn.

Against this, the WBS entities have borrowed c.£16.3bn of bank loans, private placements and bonds, with a further c.£1.7bn of hedge fair value liabilities.

WBS Balance Sheets for the y/e 31 Mar 24

£'m	TWUHL	TWUL	TWUF
Non-current assets			
Intangible assets	-	234	-
Property, plant and equipment	-	19,372	-
Investment property	-	2	-
Investment in subsidiary	-	208	-
Right-of-use assets	-	37	-
Derivative financial assets	-	294	62
Intercompany loans receivable	-	1,201	12,733
Prepayments	-	493	1
Insurance and other receivables	-	39	-
Pension asset	-	33	13
	-	21,912	12,808
Current assets			
Inventories	-	23	-
Intercompany loans receivable	63	351	2,586
Trade receivables	-	400	-
Contract assets	-	296	-
Prepayments	-	45	2
Insurance, other receivables and inter-group	-	63	-
Derivative financial assets	-	29	4
Cash and cash equivalents	-	1,280	2
	63	2,487	2,593
Liabilities			
Contract liabilities	-	(1,173)	(5)
Trade and other payables	-	(1,056)	-
Bank overdraft	-	(127)	-
Borrowings	-	(2,978)	(14,568)
Borrowings (owed to Group undertakings)	(4,743)	(13,981)	(289)
Lease liabilities	-	(53)	-
Derivative financial liabilities	-	(1,413)	(323)
Provisions for liabilities and charges	-	(275)	-
Deferred tax	-	(1,328)	-
Pension deficit	-	(152)	-
	(4,743)	(22,535)	(15,185)
Net assets / (liabilities)	(4,679)	1,864	217

Source: Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and Thames Water Utilities Finance Plc

2: Intercompany Position

- The net intercompany position across all three WBS entities is £2.1bn, this includes £3.4bn owed by TWUHL to TWL (in the Wider Kemble Group), partially offset by the unamortised fair value uplift on the intercompany loans receivable with TWUL previously held by TWUCF that were transferred to TWUF (see previous page).
- TWUHL's net intercompany borrowings amount to £4.7bn, including:
 - £3.4bn owed to TWL across five loan tranches, which is formally subordinated to the creditors within the WBS structure;
 - £1.3bn owed to TWUL; and
 - £0.1bn owed by other members of the Kemble Group in return for Group Relief of tax losses.
- TWUL's intercompany balances include:
 - £1.3bn owed by TWUHL, in the form of two unsecured loans (£0.8bn repayable in Aug 37 and £0.5bn repayable on demand, plus accrued interest);
 - £0.3bn owed by TWUF; and
 - £14.0bn owed to TWUF (with financing costs arising in TWUF directly recharged with an additional margin of ten basis points).
- The corresponding receivable balances held with TWUL can be seen in the TWUF Balance Sheet.

3: Property, Plant and Equipment (PPE)

- £19.4bn of property, plant and equipment are held on TWUL's balance sheet, including land and buildings, network assets, and plant and machinery required to operate the water and sewerage business.
- These are considered to be subject to the WBS creditors' floating charges, noting our previous comments around security assumptions.

4: Derivative Financial Liabilities

- £1.7bn of derivative financial liabilities, intended to manage the risk of fluctuations in macroeconomic variables. The Group has £0.3bn of interest rate hedges, £1.3bn of index linked hedges and £0.1bn of currency hedges at 31 Mar 24.
- These form part of the secured WBS lending.



Restructuring Plan overview

Plan creditor classes

Seven different classes of creditors have been identified as being impacted by the Plan.

- The table below shows the seven different creditor classes that have been identified as being impacted by the Plan, including the amendment being proposed to each class.
- In summary, the Plan seeks to get consent to amend the WBS structure to allow the introduction of a new Super-Senior tranche of funding, extend all maturity dates by 24 months, amend certain payment priorities, permit automatic rolling of drawn RCF facilities and allow all hedging arrangements to be paid in accordance with existing contractual terms.

Creditor Class	Description	Amendment
1) Liquidity Facility Class	<p>The Liquidity Facility WBS creditors within the WBS structure, comprising:</p> <ul style="list-style-type: none"> The Class A Debt Service Reserve Liquidity Facility; The Class B Debt Service Reserve Liquidity Facility; and The O&M Reserve Facility <p>(all of which are only intended to be accessible in the event of a Standstill).</p>	<p>The Plan will not alter the current economic and repayment terms of the Liquidity Facilities, which will be cancelled if the Plan is implemented.</p> <p>The Company is seeking consent to various changes to the WBS security structure, in particular the introduction of a new Super-Senior tranche of funding.</p>
2) Interest Rate and Index Hedging Class	<p>Amounts payable to providers in respect of:</p> <ul style="list-style-type: none"> The Interest Rate Hedging Agreements; and The Index Hedging Agreements. <p>(which are designed to manage the risk associated with fluctuations in interest rates and inflation).</p>	<p>Payments arising in relation to the Interest Rate and Index Hedging Agreements shall continue to be paid in accordance with existing terms.</p> <p>The Interest Rate and Index Hedging Class will rank above the Super-Senior Funding.</p> <p>The Company is seeking consent to various changes to the WBS security structure, in particular the introduction of a new Super-Senior tranche of funding.</p>
3) Currency Hedging Class	<p>Amounts payable to providers in respect of:</p> <ul style="list-style-type: none"> The Currency Hedging Agreements. <p>(which are designed to manage the risk associated with fluctuations in foreign exchange rates).</p>	<p>Payments arising in relation to the Currency Hedging Agreements shall continue to be paid in accordance with existing terms.</p> <p>The Currency Hedging Class will be elevated to rank pari passu with the Super-Senior Funding (as per the Amended Payment Priorities).</p> <p>The Company is seeking consent to various changes to the WBS security structure, in particular the introduction of a new Super-Senior tranche of funding.</p>

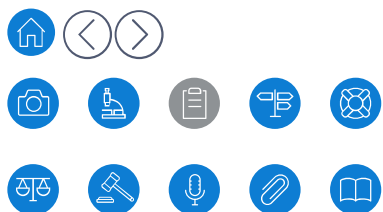


Restructuring Plan overview

Plan creditor classes

Seven different classes of creditors have been identified as being impacted by the Plan.

Creditor Class	Description	Amendment
4) Class A Debt Make-Whole Class	The Class A Debt lenders, specifically where facilities incorporate Make-Whole provisions (incorporating principal, interest, commissions, fees and Make-whole amounts where relevant), provide the following: <ul style="list-style-type: none"> Class A Notes; and Class A Bonds. 	The Company is seeking consent to various changes to the WBS security structure, in particular: <ul style="list-style-type: none"> the introduction of a new Super-Senior tranche of funding. A 24-month extension of all maturity dates and amortisation payments
5) Class A Debt Non-Make-Whole Class	The Class A Debt lenders, specifically where facilities do not incorporate Make-whole provisions (incorporating principal, interest, commissions and fees where relevant), provide the following: <ul style="list-style-type: none"> The Class A RCFs; The Class A TLs; Class A Notes; and Class A Bonds. 	The Company is seeking consent to various changes to the WBS security structure, in particular: <ul style="list-style-type: none"> the introduction of a new Super-Senior tranche of funding. A 24-month extension of all maturity dates and amortisation payments. Automatic rolling of drawn RCFs amounts for two years and cancellation of all undrawn facilities
6) Class B Debt Class	The Class B Debt lenders (incorporating principal, interest, commissions, fees and Make-whole amounts where relevant), provide the following: <ul style="list-style-type: none"> The Class B RCFs; The Class B TLs; and Class B Bonds. 	The Company is seeking consent to various changes to the WBS security structure, in particular: <ul style="list-style-type: none"> the introduction of a new Super-Senior tranche of funding. A 24-month extension of all maturity dates. Cancellation of all undrawn facilities.
7) Subordinated Creditor Class	The Subordinated Creditor Class represents intercompany amounts owing to TWL (the parent of TWUHL), which are junior and subordinated to the rights and claims of the WBS creditors.	The Company is seeking acceptance of various changes to the WBS security structure, including: <ul style="list-style-type: none"> the introduction of a new Super-Senior tranche of funding. A 24-month extension of all maturity dates.












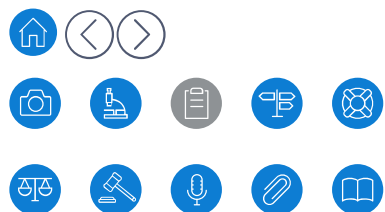
Restructuring Plan overview

Impact of the Plan on creditor classes

If successful, the Plan will amend the classes of creditors such that new Super-Senior debt and new consent fee notes are inserted into the WBS, certain facilities are cancelled and currency hedge termination ranking is elevated.





















Classes of Creditors Key

-  Liquidity Facility Class
-  Interest Rate and Index Hedging Class
-  Currency Hedging Class
-  Class A Debt Non-Make-Whole Class
-  Class A Debt Make-Whole Class
-  Class B Debt Class
-  Subordinated Creditor Class
-  New debt
-  Elevation in ranking




















Below is a summary of the two waterfalls of creditor claims that apply to the Plan and Final RP and Relevant Alternative depending on whether the Plan is successful or not.

Plan creditor waterfall – successful Plan

1	• Costs, remuneration and expenses of Bond Trustee and Security Trustee.	
2	• Costs, remuneration and expenses of Agent Bank, Paying Agents, Account Bank, Liquidity Facility Providers, Facility Agents, Standstill Cash Manager, Authorised Credit Providers.	
3	• Liquidity Facilities – fees, interest and principal.	
4	• Interest rate and index hedges – scheduled amounts.	
5	• Super-Senior debt – interest, fees and commissions; Interest rate and index hedges – unscheduled and termination amounts and consent fee debt; and Currency hedges – scheduled amounts (not including principal or final exchange amounts).	N/A  
6	• Super-Senior debt – principal and Make-whole; and Currency hedges – unscheduled amounts, termination amounts and principal and final exchange amounts and consent fee debt.	N/A 
7	• Class A debt – interest, fees and commissions.	 
8	• Class A debt – consent fee debt.	 
9	• Class A debt – principal.	 
10	• Class A debt – Make-whole.	
11	• Class B debt – interest, fees and commissions.	
12	• Class B debt – consent fee debt.	
13	• Class B debt – principal.	
14	• Class B debt – Make-whole.	
15	• Any other amounts due to Class A Debt.	 
16	• Any other amounts due to Class B Debt.	
17	• TWL subordinated debt.	
18	• Equity.	

Relevant Alternative creditor waterfall – unsuccessful Plan

0	• HMG funding.	
1	• Costs, remuneration and expenses of Bond Trustee and Security Trustee.	
2	• Costs, remuneration and expenses of Agent Bank, Paying Agents, Account Bank, Liquidity Facility Providers, Facility Agents, Standstill Cash Manager, Authorised Credit Providers.	
3	• Liquidity Facilities – fees, interest and principal.	
4	• Interest rate and index hedges – scheduled amounts.	
5	• Class A debt – interest, fees and commissions; Interest rate and index hedges – unscheduled and termination amounts; and Currency hedges – scheduled amounts (not including principal or final exchange amounts).	   
6	• Class A debt – principal; and Currency hedges – unscheduled amounts, termination amounts and principal and final exchange amounts.	  
7	• Class A debt – Make-whole.	
8	• Class B debt – interest, fees and commissions.	
9	• Class B debt – principal.	
10	• Class B debt – Make-whole.	
11	• Any other amounts due to Class A Debt.	 
12	• Any other amounts due to Class B Debt.	
13	• TWL subordinated debt.	
14	• Equity.	

Source: Practice Statement Letter, Linklaters analysis, Teneo analysis

Restructuring Plan overview

Impact of the Plan on creditor classes

If successful, the Plan will amend the classes of creditors such that new Super-Senior debt and new consent fee notes are inserted into the WBS, certain facilities are cancelled and currency hedging payments are elevated.

Amendments to the creditor waterfall under the Plan

- The table on the previous page sets out a summary of the two creditor claim waterfalls applicable to the Plan and Relevant Alternative, depending on whether or not the Plan is sanctioned
- Each of the seven creditor classes have been overlaid to the creditor waterfall to identify which elements of the waterfall are included in each creditor class under the Plan.
- The current, pre-Plan creditor waterfall is used in the analysis for the Relevant Alternative (save that HMG funding ranks senior to all WBS creditor claims).
- The proposed amended creditor waterfall is used in the analysis for the Plan.
- The key amendments to the creditor waterfall proposed in the Plan are as follows:

New debt inserted in the waterfall:

- There are a number of line items being inserted into the creditor waterfall that cater for the proposed Super-Senior funding and associated terms:
 - Super-Senior debt – interest, fees and commissions (ranking 5th)
 - Interest rate and index hedges consent fee (ranking 5th)
 - Super-Senior debt – principal and Make-whole (ranking 6th)
 - Currency hedges consent fee (ranking 6th)
 - Class A debt – consent fee debt (ranking 8th)
 - Class B debt – consent fee debt (ranking 12th)

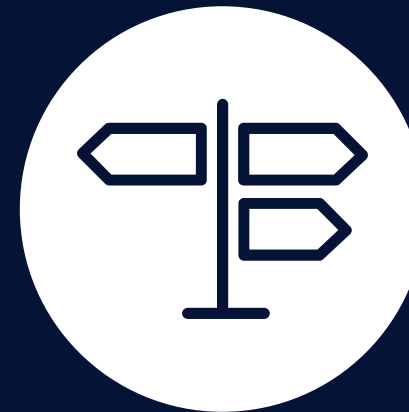
Debt elevated in the waterfall:

- The currency hedges unscheduled amounts, termination amounts and principal and final exchange amounts are elevated in the proposed waterfall (ranking 6th), whilst the currency hedging scheduled payments are also in effect elevated, now ranking before Class A debt interest.



Selection of Relevant Alternative

Options considered (Long List)	31
Options considered (Short List)	36
Relevant Alternative: Final selection	42



Selection of Relevant Alternative

Options considered (Long List)

We have considered a range of alternative options which could be pursued by the Group in the event the Plan fails.

The majority of these are either not feasible or could not be delivered in the time available.

Overview

- We have assessed a wide range of alternative options available to the Group, which we have considered as part of our work.
- This has produced an initial Long List of seventeen options, which we have then condensed into a Short List of four options, in the event the Plan is not sanctioned.
- This Long List is set out below, together with a description of each option, and our initial observations around its feasibility in the time available (in a hypothetical scenario where the Plan had failed).

Option	Description	Observations
1) Continue to trade - "Do Nothing"	<ul style="list-style-type: none"> • The business continues to operate "as is", with no restructure of its debt, and Opex and Capex incurred as forecast. 	<ul style="list-style-type: none"> • Based on TWUL's monthly liquidity forecast, liquidity runs out in Mar 25. If liquidity becomes exhausted TWUL would enter a Standstill (see earlier in this report). <p>Not feasible</p>
2) Continue to trade – Restricted expenditure	<ul style="list-style-type: none"> • Expenditure on Opex/Capex is restricted to a level sufficient to ensure that the business can operate within available cash resources, whilst continuing to service debt in full. 	<ul style="list-style-type: none"> • TWUL is seeking to identify cash savings, but reductions to the extent required would have a material impact on customer service levels and capital project delivery. This would likely result in regulatory action, and potential personal risk to members of the Board of TWUL. <p>Not feasible</p>
3) Equity injection – Existing shareholders	<ul style="list-style-type: none"> • Cash is injected by the existing shareholders, sufficient to fund ongoing operations. 	<ul style="list-style-type: none"> • The existing Kemble shareholders have already publicly declined to provide any further funding (with no indication that the lenders to the wider Kemble Group would be prepared to step into their shoes and do so). <p>Not feasible</p>
4) Equity injection – New shareholders	<ul style="list-style-type: none"> • Cash is injected by new investors, diluting the existing shareholders. 	<ul style="list-style-type: none"> • Kemble's equity is considered to have no/minimal value (with large shareholders having written-off their investment). It is therefore unlikely that any new investor would be willing to inject funds alongside Kemble absent a broader debt restructuring. • If new equity comes through the existing structure, it would need to service Kemble debt (which is in default and therefore all due) absent a Kemble restructuring. <p>Not feasible</p>



Selection of Relevant Alternative

Options considered
(Long List)

We have considered a range of alternative options which could be pursued by the Group in the event the Plan fails.

The majority of these are either not feasible or could not be delivered in the time available.

Option	Description	Observations
5) Sale of business – Equity	<ul style="list-style-type: none"> The shares in TWUL (or one of its holding companies) are acquired by new equity investors, who agree to inject sufficient funding to address cash shortfall. 	<ul style="list-style-type: none"> This is TWUL's preferred medium term option and forms part of the current equity solicitation process. However, this cannot be delivered within the available liquidity window, particularly given the expectation that it would need to be accompanied by a debt restructuring. <p>Not feasible in time available</p>
6) Sale of business – Business and assets	<ul style="list-style-type: none"> TWUL's business and assets are sold to a newco controlled by new investors, thereby removing the business from its current ownership (and debt) structure. 	<ul style="list-style-type: none"> Similar to Option (5) above, this could not be delivered within the available liquidity window. Furthermore, a sale of TWUL's business and assets in isolation is not feasible given: <ul style="list-style-type: none"> the complex regulatory structure in the water industry and the licence cannot easily be transferred; it would likely require the consent of the WBS creditors; and if at a value below the existing debt, TWUL would be insolvent post sale, with the transaction (and the Board of TWUL's actions) potentially subject to challenge by creditors. <p>Not feasible (outside a SAR)</p>
7) Sale of business – Break-up	<ul style="list-style-type: none"> The business is broken up into smaller units (e.g. London and Thames Valley), each of which is then sold to a new equity investor, with an agreement to inject sufficient funding to address cash needs. 	<ul style="list-style-type: none"> A break-up of the business would require complex and detailed planning, meaning this would likely take much longer to deliver than Option (5) above. <p>Not feasible in time available</p>
8) Refinancing	<ul style="list-style-type: none"> The secured debt is refinanced to alternative lenders, who would repay the existing lending. 	<ul style="list-style-type: none"> Given the challenges facing the business, it is unlikely that alternative debt providers could be identified that would be willing to repay the existing debt in full and provide the additional facilities necessary to fund forecast opex and capex commitments. This is based upon the market perception that the business is over-levered, the complex nature of the debt structure, and size of the facilities (which would need to be refinanced by multiple institutions). Furthermore, we note that the debt is publicly traded, which already offers any interested party the ability to buy-out the existing debt providers. <p>Not feasible</p>



Selection of Relevant Alternative

Options considered (Long List)

We have considered a range of alternative options which could be pursued in the event the Plan fails.

The majority of these are either not feasible or could not be delivered in the time available.



Option	Description	Observations
9) Full debt restructuring	<ul style="list-style-type: none"> The secured debt is restructured to a level sufficient to provide headroom for new debt and/or equity funding, likely requiring a write-off of a portion of the existing debt. 	<ul style="list-style-type: none"> TWUL is currently proposing the Plan, with a view to considering a more substantial restructuring once the FD has been agreed. It is considered unlikely that a deliverable equity offer emerges against which a debt restructuring offer could be made before the FD is known and TWUL's business plans are updated. Therefore, whilst a full debt restructuring may ultimately be required, this is not feasible within the current liquidity runway (noting that a substantial debt write-off at this stage could ultimately generate value for the existing shareholders depending on FD). <p>Not feasible in time available</p>
10) Alternative interim platform transaction	<ul style="list-style-type: none"> The Group identifies an alternative short term funding facility, delivered through an alternative RP. 	<ul style="list-style-type: none"> A key element of the Plan is the provision of a super senior funding facility of up to £3.0bn, led by the Class A lenders. We understand from Linklaters and the Group that an alternative funding line has been proposed by an ad hoc group of Class B creditors, on different terms. Management's views on this proposal were set out in the Practice Statement Letter, and we understand will be further particularised in the Explanatory Statement to the Plan. Given the necessary amendments to the existing facilities, this would also need to be delivered through a restructuring plan. Based on TWUL's liquidity forecasts, and its view of EoDs which would occur if an alternative plan was implemented without additional consents/waivers, this option would likely require the business to enter a Standstill for a period, in order to buy sufficient time to get the alternative RP to Court (e.g. three-to-four months). <p>Shortlisted for further consideration</p>
11) WBS creditors take control	<ul style="list-style-type: none"> The WBS creditors exercise their share pledge, or undertake a form of debt for equity swap, to take ownership of the business (severing TWUL/the WBS ringfenced entities from the wider Kemble group) 	<ul style="list-style-type: none"> The WBS creditors could seek to resolve TWUL's short- and medium-term liquidity issues by taking control of the equity and putting in place additional facilities (with the risk of value leakage from a debt write-off reduced by the fact that WBS creditors would own both the debt and equity). This is unlikely to be feasible as a fall-back position if the Plan were to fail, given the time required to implement. We note that this does not impact the ability of the WBS creditors to undertake some form of debt for equity swap in the future (e.g. as part of any Final RP) <p>Shortlisted for further consideration</p>

Selection of Relevant Alternative

Options considered (Long List)

We have considered a range of alternative options which could be pursued in the event the Plan fails.

The majority of these are either not feasible or could not be delivered in the time available.



Option	Description	Observations
12) Use of an overseas restructuring process	<ul style="list-style-type: none"> An alternative overseas restructuring process (e.g. Chapter 11) is used to address TWUL's capital structure and/or provide a cash runway to an equity deal. 	<ul style="list-style-type: none"> TWUL is a UK registered entity, with no overseas operations, limiting its ability to use an alternative restructuring process. It also appears unlikely that Ofwat and the SoS, together with the Board of TWUL would consent to the use of an overseas process (further noting that an alternative process to restructure the debt would not in isolation address all of TWUL's issues). <p>Not feasible</p>
13) Facility default and Standstill	<ul style="list-style-type: none"> TWUL defaults on its facilities and enters into a Standstill. The business continues to trade within the Standstill, until a comprehensive debt restructuring/M&A deal can be identified and completed. 	<ul style="list-style-type: none"> Payments to suppliers/lenders would be subject to strict controls enforced by the cash manager (see Restructuring Plan Overview section). This would lead to potentially material operational restrictions including a cessation and inability to fund Enhancement Capex under the Standstill terms. Enhancement Capex is capital expenditure deemed to be improving asset quality under Ofwat's approach (as opposed to maintaining asset quality, which is deemed maintenance capex), the cessation of which therefore has the potential to result in regulatory action (on top of any action associated with the default itself). Further, the inability to be able to settle Enhancement Capex invoices for work already undertaken may also cause the Board of TWUL to reassess its views on the business's solvency position. However, the Standstill provisions were drafted for these purposes, and the option is therefore worthy of further consideration. <p>Shortlisted for further consideration</p>
14) SAR (pre-packaged sale)	<ul style="list-style-type: none"> TWUL is placed into a SAR in order to deliver a pre-arranged sale to a new owner using a Water Transfer Scheme ("WTS"). This would allow all assets and liabilities required by the purchaser to be transferred, whilst leaving behind the existing debt. 	<ul style="list-style-type: none"> This option would require an equity raise process to have been completed, a new owner identified, and extensive preparatory work undertaken around the WTS. This is unlikely to be deliverable in the available liquidity window (albeit could potentially be used to deliver a subsequent sale, once the business has sufficient time to complete the equity raise process). <p>Not feasible in time available</p>

Selection of Relevant Alternative

Options considered
(Long List)

We have considered a range of alternative options which could be pursued in the event the Plan fails.

The majority of these are either not feasible or could not be delivered in the time available.

Option	Description	Observations
15) SAR (trading)	<ul style="list-style-type: none"> TWUL is placed into a SAR, with HMG funding made available to the business (as required) whilst an exit from SAR is explored (e.g. through a restructuring of the debt, and/or sale/break-up of the business). 	<ul style="list-style-type: none"> A SAR would provide TWUL with a platform to explore all relevant exit routes and could be enacted relatively quickly by either the SoS or Ofwat (with the consent of the SoS). This is currently considered to be the most likely Relevant Alternative in the event the Plan is unsuccessful. <p>Shortlisted for further consideration</p>
16) Other insolvency process	<ul style="list-style-type: none"> TWUL is placed into a normal administration or liquidation process, with the assets potentially sold off to repay creditors. 	<ul style="list-style-type: none"> This is not an option in the regulated water sector – no insolvency process is permitted, other than a SAR (save for a winding up following a SAR), which prioritises the continuation of supplies to customers. <p>Not feasible</p>
17) Nationalisation	<ul style="list-style-type: none"> TWUL is taken into Government ownership on a solvent basis, outside of a SAR. 	<ul style="list-style-type: none"> Based on public announcements made by Government Ministers, this appears an unlikely option, as it would result in a perceived bail-out of the WBS creditors without the use of a market driven process/valuation. More likely, it may be a potential exit route from a SAR if no buyer can be found. <p>Unlikely to be feasible</p>



Selection of Relevant Alternative

Options considered
(Short List)

Our initial Relevant Alternative Long List highlighted four potentially feasible fall-back options available if the Plan were to fail: (i) an alternative interim platform transaction; (ii) WBS creditors take control; (iii) Facility Default/Standstill; (iv) SAR (trading).

Having considered the option of alternative Interim RP transaction in more detail, we have discounted it as the most likely “Relevant Alternative” to the Plan.



Option 10: Alternative interim platform transaction

An alternative short term funding facility is delivered through a competing Restructuring Plan

Additional observations

Runway to an alternative funding deal

- We understand from Linklaters and the Group that an alternative short term funding facility has been proposed by the Class B creditors, on different terms from the facilities included within the Plan.
- We have therefore considered whether the business would be in a position to pivot to this option as a relevant alternative to the Plan.
- As with the current funding proposal, we understand from Linklaters that this could not be delivered without amending the existing facilities. As a result, it would need to be delivered through an alternative RP, which it appears would not commence until a failure at the sanction hearing of the Plan scheduled for late Jan 25.
- Based on discussions we have held with Linklaters, we estimate that it could take a period of up to three-to-four months to complete an alternative Interim RP commenced following a failed Plan sanction hearing
- However, we understand from Linklaters and Management that there are potential events of default (“EoD”) on the facilities which would occur following a failure of the Plan.
- Consequently, it is likely that the business would need to operate in Standstill for some or all of the period between the failed sanction hearing for the Plan and the point at which the alternative Interim RP could be sanctioned (assuming it could attract the requisite majorities of approval from creditors or, absent all classes approving, the Court could be persuaded to exercise its cramdown powers). Standstill would likely be triggered, either due to:
 - EoDs resulting from the failed Plan (absent any new consents/waivers provided by the WBS creditors);
 - EODs arising from commencement of the alternative interim RP (absent consents/waivers being provided for that by the Lenders); or

- Liquidity challenges in light of the business’s constrained cash resources.

Operations in a Standstill

- We have sought to assess the implications of trading in Standstill whilst an alternative funding facility is progressed.
- In order to do this, we have held discussions with the Executive and Regulatory teams at TWUL, and its legal advisors (Linklaters), focused on the following:
 - i. The liquidity available to the business during the Standstill;
 - ii. Any operational implications for the business whilst trading during a Standstill; and
 - iii. The potential reaction to the above from TWUL’s regulators.

1) Cash management during Standstill

- During a Standstill, day-to-day cash management would be controlled by the Standstill Cash Manager (see earlier in this report).
- Payments during this period would be made according to a waterfall set out in the WBS documents, with (in summary) Opex and Maintenance Capex at the top of the waterfall, followed by various categories of debt service, but with no Enhancement Capex payments permitted during a Standstill.
- We have, in conjunction with TWUL and Linklaters, considered the impact of these arrangements and our analysis indicates that sufficient liquidity should be available to cover budgeted Opex and Maintenance Capex, but that there would not be sufficient funds available to cover debt service (albeit access to debt service reserves would partially mitigate this).
- However, no payments could be made in respect of Enhancement Capex.

Selection of Relevant Alternative

Options considered
(Short List)

Our initial Relevant Alternative Long List highlighted four potentially feasible fall-back options available if the Plan were to fail: (i) an alternative interim platform transaction; (ii) WBS creditors take control; (iii) Facility Default/Standstill; (iv) SAR (trading).

Having considered the option of alternative interim RP transaction in more detail, we have discounted it as the most likely “Relevant Alternative” to the Plan.



Option 10: Alternative interim platform transaction (cont'd)

An alternative short term funding facility is delivered through a competing Restructuring Plan

2) Operational implications

- We consider there to be a number of significant operational challenges arising from a Standstill, including:

Enhancement Capex

- Enhancement Capex forms a key part of TWUL's programme of works and is in part also a direct response to legal and regulatory obligations placed upon TWUL by Ofwat and the other water regulators.
 - An inability to make payments to such enhancement capex suppliers risks:
 - a) Withdrawal of services for the period of non-payments. Management have estimated that c.80% of enhancement capex suppliers are likely to cease services in the event of non-payment.
 - b) Delays to ability to recommence services following a catch up on payment delays. If services are ceased, we understand from Management it is considered unlikely that suppliers can immediately restart once payments can restart. Management have estimated a potential three-month delay to restart after a three-month Standstill. This potentially could cause a six-month delay in the full AMP8 Enhancement Capex program;
 - c) Risk that some suppliers withdraw services for the long term, pivoting resources to alternative water companies. There is significant constraint in key supplier resources for Enhancement Capex across the water sector, which increases the risk of losing key suppliers – with further impact on the AMP8 program timetable and potentially increased cost to attract suppliers; and
 - d) Risk of suppliers seeking a winding up order and effectively pushing TWUL into a SAR. This risk is mitigated by the short Standstill period, however our analysis suggests that key suppliers may be settled in full during a SAR, including any arrears. This does therefore provide incentive to seek a winding up of TWUL to precipitate a SAR.
- Inability to make Enhancement Capex payments could significantly impact the substantial overall program of works proposed for AMP8.
 - Given the way in which the business is managed, it is practically extremely challenging to separate Maintenance and Enhancement Capex (with the split typically done as an accounting exercise at the year-end). Furthermore, the majority of Capex suppliers will undertake work on both Maintenance and Enhancement projects, and therefore any pro-rating of payments to them would require all invoicing to be split, which will, in practice, result in a reduction of the carrying out of Maintenance Capex and/or the suppliers who undertake such work.

Cash management challenge

- Overall cash management would automatically pass from TWUL to the Standstill Cash Manager.
- We understand from Management that the Standstill Cash Manager is not set-up to manage cash for TWUL in the manner anticipated within the WBS financing agreements. We would therefore expect a period where no payments are made, whilst new systems/processes were implemented, potentially assisted by third parties brought in by the Standstill Cash Manager.
- During this period there is the potential for major disruption particularly in the case of critical payments (e.g. for urgent materials, payroll etc.).

Selection of Relevant Alternative

Options considered
(Short List)

Our initial Relevant Alternative Long List highlighted four potentially feasible fall-back options available if the Plan were to fail: (i) an alternative interim platform transaction; (ii) WBS creditors take control; (iii) Facility Default/Standstill; (iv) SAR (trading).

Having considered the option of alternative interim RP transaction in more detail, we have discounted it as the most likely “Relevant Alternative” to the Plan.



Option 10: Alternative interim platform transaction (cont'd)

An alternative short term funding facility is delivered through a competing Restructuring Plan

3) Reaction from Regulators

- Firstly, the delays to the AMP8 enhancement program that could be impacted by a Standstill may attract additional fines from Ofwat and other industry regulators. For example, the Environment Agency licence conditions are being updated in expectation of capex project deliveries, and delays could therefore attract fines and potentially criminal liability until that project is brought up to date.
- With the risk that Management considers the whole AMP8 enhancement program could be shifted back by approximately six months as a result of a three-month Standstill, this risk of regulatory fines is heightened.
- Secondly, the regulators would be expected to closely scrutinise the impacts of a Standstill on the TWUL licence conditions.
- Ultimately, regulatory actions can include triggering a SAR in the event of material licence breaches.

Summary

- There are a large number of factors that would need to come together to navigate this option successfully and make it implementable.
- If these factors could not be navigated successfully the Standstill could have a material impact on the business.
- We note that following a failure of the Plan, as set out in the Explanatory Statement, the Board of TWUL has concluded that trading through a Standstill is unlikely to be sustainable such that in those circumstances it would have little option but to seek the protection of a SAR or alternatively, Ofwat and/or The Secretary of State may decide unilaterally to apply to Court for a SAR.
- We have taken into account the Board view and the factors considered in this section and on balance, we consider that there are too many risks and uncertainties with this option.
- **As a result, we do not consider an alternative interim platform transaction to be the most likely relevant alternative to the Plan.**

Selection of Relevant Alternative

Options considered
(Short List)

Our initial Relevant Alternative Long List highlighted four potentially feasible fall-back options available if the Plan were to fail: (i) an alternative interim platform transaction; (ii) WBS creditors take control; (iii) Facility Default/Standstill; (iv) SAR (trading).

Having considered the option of WBS creditors taking control in more detail, we have discounted it as the most likely “Relevant Alternative” to the Plan.



Option 11: WBS creditors take control

WBS creditors take direct control of TWUL, potentially through a debt for equity deal

Additional observations

- The Plan is intended to provide a runway to an equity raise, supplemented by additional debt facilities from the WBS creditors.
- The WBS creditors could instead opt for a more comprehensive restructuring, with the provision of new facilities accompanied by taking control of the equity (i.e. transferring ownership to a newly incorporated entity owned by the WBS creditors).
- The total cost of this to the WBS creditors would be dependent on their strategy e.g.:
 - A short-term hold until an equity raise could be completed (potentially waiting for a CMA redetermination to be completed for the FD e.g. Spring 26 (Mar/Apr 26)); or,
 - A longer-term hold, potentially awaiting clarity over the regulatory outcome for AMP9 (i.e. the period Apr 30 – Mar 35), or otherwise seek to implement an operational turnaround of the business to benefit from any upside value that may bring.
- Taking control could be achieved through a debt for equity exchange, or enforcement of the WBS creditors’ share pledge.
- However, the WBS creditors are unlikely to wish to continue to meet the full liquidity shortfall including ongoing debt service across all WBS facilities. We would therefore expect that this option would be accompanied by a debt restructuring ahead of such a strategy.
- We anticipate that this could not be achieved quickly. In particular:
 - An alternative RP would be necessary to implement new Super-Senior funding, and deliver the associated debt write-off as part of a debt for equity swap (given restrictions in the WBS);
 - Elements of the WBS creditor base may have limitations on their ability to take an equity stake;
 - Some WBS creditors may be unwilling to commit to an open-ended, long-term role as owner/funder (noting that material additional funding would be required post taking control); and
 - The potential for enhanced regulatory scrutiny as part of the transaction.
- If the WBS creditors wished to take control alongside any new equity provider this would lengthen the timetable.

Relevant Alternative: Conclusions

- If there were appetite from the WBS creditors to take control of the equity, we do not believe that this is likely to be as a “Relevant Alternative” to the Plan, on the basis that:
 - If a majority of the WBS creditors had preferred this option, we would have expected it to have been a condition of the Plan (which is the result of extensive negotiations between the Group and various creditor groups) i.e. it would be expected to form part of the Plan itself, rather than be an alternative;
 - The short-term funding “ask” of WBS creditors is assumed to be broadly the same in the Plan and ‘WBS creditors Take Control’ scenarios. It is therefore unlikely to be an alternative option that would be more attractive to WBS creditors if they were to decline to fund the business through the Plan; and
 - Given the timescales required to orchestrate this scenario, it would likely require the business to operate in a Standstill for a period of a few months following the failure of the Plan (see earlier in this section).
- **As a result, we do not consider the WBS creditors taking control to be the most likely relevant alternative to the Plan.**
- We should note that this does not impact the ability of the WBS creditors to undertake some form of debt for equity exchange in the future (e.g. as part of any Final RP), and therefore the Plan may offer the quickest route of doing so.

Selection of Relevant Alternative

Options considered
(Short List)

Our initial Relevant Alternative Long List highlighted four potentially feasible fall-back options available if the Plan were to fail: (i) an alternative interim platform transaction; (ii) WBS creditors take control; (iii) Facility Default/Standstill; (iv) SAR (trading).

Having considered the option of Facility Default/Standstill in more detail, we have discounted it as the most likely “Relevant Alternative” to the Plan.



Option 13: Facility Default/Standstill

TWUL defaults on its debt facilities, and enters into a “Standstill”

Additional observations

- As set out previously, the process for a creditor Standstill is included within the existing WBS facility documents and would automatically commence once a WBS creditor notifies the Security Trustee of an EoD.
- In this option, we assume that TWUL continues to trade in Standstill whilst it pursues the ongoing M&A/equity raise process.
- This is distinct to Option 10 (Standstill used to deliver an alternative interim platform transaction), in that this would be a more open-ended period of trading in a Standstill.
- Consequently, the fundamental challenges associated with a Standstill would remain, and are likely to be even more problematic (given the open ended nature of this option), including:
 - The liquidity available to the business during the Standstill;
 - Any operational implications for the business whilst trading during a Standstill, including:
 - The suspension/cessation of Enhancement Capex projects by suppliers faced with non-payment (and with less clarity over when/whether these would recommence than in Option 10); and
 - Disruption to day-to-day management functions as internal resources are diverted to adhering to strict daily cash controls.
 - The potential reaction to the above from TWUL’s regulators (given the impact on potentially critical capital projects that have already been agreed with them).

Relevant Alternative: Conclusions

- We would expect the issues set out opposite to represent significant challenges to the Board in continuing to trade in a Standstill for a prolonged period of time (rather than seeking the protection of a SAR which would be expected to enable Enhancement Capex to continue).
- Consequently, as set out previously, the Board of TWUL has concluded that trading through a Standstill is unlikely to be sustainable such that in those circumstances it would have little option but to seek the protection of a SAR or alternatively, Ofwat and/or The Secretary of State may decide unilaterally to apply to Court for a SAR.
- We have taken into account the Board view and the factors considered in this section and on balance, we therefore do not consider that an open-ended Standstill arrangement would be a credible basis to provide a platform to explore alternative funding options.
- **As a result, we do not consider the Standstill option to be the most likely relevant alternative to the Plan.**

Selection of Relevant Alternative

Options considered
(Short List)

Our initial Relevant Alternative Long List highlighted four potentially feasible fall-back options available if the Plan were to fail: (i) an alternative interim platform transaction; (ii) WBS creditors take control; (iii) Facility Default/Standstill; (iv) SAR (trading).

Having considered the option of SAR in more detail, we consider it to be the most likely 'Relevant Alternative' to the Plan.



Option 15: SAR (trading)

SoS/Ofwat places TWUL into SAR, providing a framework in which Government funding would be made available to ensure operations continue as usual

Additional observations

- A SAR is the only insolvency process available to TWUL (other than a winding-up following a SAR) and would need to be initiated by either the SoS or Ofwat (with consent of the SoS) (likely following a request from the Directors).
- The statutory objective of a SAR (commenced on insolvency grounds) is to ensure that the provision of regulated services to customers is maintained until the company could be rescued or business sold (i.e. the Special Administrators would be required to trade the business).
- As part of a SAR, executive control of the business would transfer from the Directors to the Special Administrators, including ultimate responsibility for meeting regulatory requirements.
- In assessing the SAR impacts, we have assumed that sufficient funding is made available from HMG to enable the Enhancement Capex program to be delivered in line with Ofwat commitments.

Relevant Alternative: Conclusions

- A SAR is intended to be a safe harbour for water companies in the event of financial distress. As a result, it is not limited by:
 - Time: the SAR would continue until the business could be sold/rescued; or
 - Funding: with an assumption that HMG would provide sufficient funding to maintain operations at the level required to achieve TWUL's statutory and regulatory obligations.
- As set out opposite, a SAR appointment is in the control of Ofwat/SoS, who would likely prefer TWUL to seek to exhaust all solvent options before making a SAR appointment. Consequently, it is not an alternative which is in the direct control of the business/Directors.
- However, it is difficult to foresee a situation where HMG declined to make a SAR appointment after receiving a request from the Directors which advised them that the business was insolvent.
- Consequently, having discounted the other potentially feasible Relevant Alternatives, **we consider a SAR of TWUL and associated administration of the Company and TWUF to be the Relevant Alternative** in the event the Plan is not sanctioned.

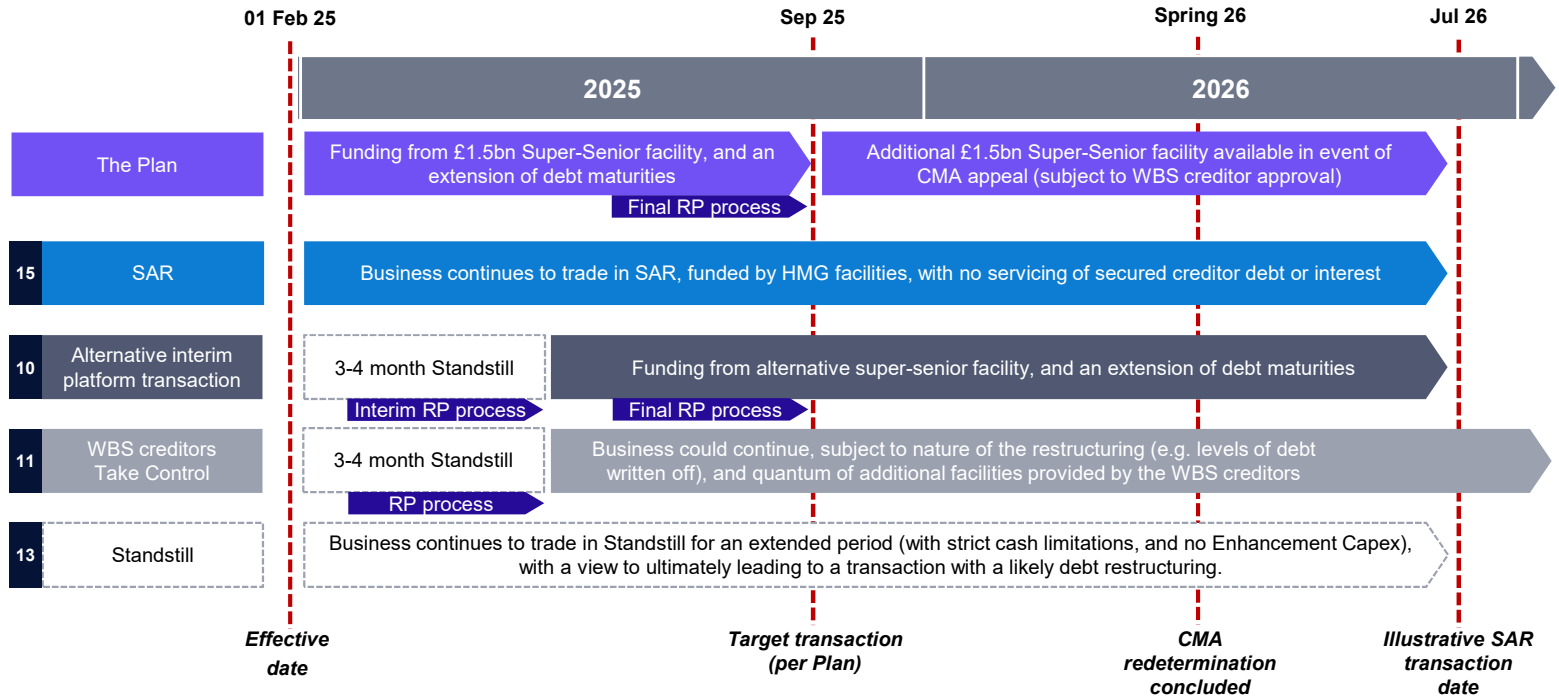
Selection of Relevant Alternative

Relevant Alternative:
Final selection

Each of the shortlisted alternative options can be viewed as a bridge to a longer-term solution, rather than a standalone outcome.

A SAR of TWUL and consequential administration of the Company and TWUF appears to be the most likely Relevant Alternative to the Plan, with other options all requiring a period of trade in Standstill.

Illustrative timelines



Note 1: Above timelines assume the business would enter into a Standstill if the Plan is not sanctioned at a Sanction hearing, driven by both the requirement to repay drawn reserve funding (which is expected to accelerate the business exhausting its available liquidity, otherwise forecast for Mar 25, and the potential for other insolvency triggers)

Competitions and Markets Authority (“CMA”) appeal

The terms of the Super-Senior term sheet include an initial £1.5bn and provision for a further £1.5bn accordion facility in the event that a CMA appeal is triggered by Management. This however is subject to certain stringent conditions. As a consequence, we understand from the Company that the outcome of the Plan is a successful Interim RP followed by a Final RP as at 30 Sep 25.

Conclusion

Based on the findings on the previous pages, and the illustrative timelines set out above, in the event that the Plan is not sanctioned, a SAR (trading) of TWUL, and consequential administration of the Company and TWUF, appears to be the most likely Relevant Alternative.

Both a successful Interim RP or a SAR would provide the business with additional funding, sufficient to bridge to an assumed transaction, albeit at different dates, and with different implications for the Plan Creditors.



Relevant Alternative overview

Administration appointments	44
Administration strategies	45
Outline SAR process	46
SAR Funding	47
SAR overlays	49
Exit routes	54
Transaction structure	56
Timescales	57



Relevant Alternative overview

Administration appointments

Following a failure of the Plan, we anticipate the Board of TWUL would invite Ofwat and the SoS to place the company into a SAR.

At the same time, we would expect the Boards of TWUHL and TWUF to seek to appoint administrators over those entities.

However, TWUL is the only entity with any operational assets and external trade.



Immediate Actions following a failure of the Plan

- In the event the Plan is not sanctioned, the Group is forecast to face an imminent funding requirement, and potential default on the facilities.
- As set out earlier in this report, we consider the most likely reaction from the entities within the Group would be to seek the protection of administration appointments including SAR.
- This would minimise any personal risk for the Directors and ensure TWUL's operations could be maintained within the SAR regime, supported by longer term funding from HMG.
- The process required to do this would differ by entity.

TWUHL and TWUF: Appointment Process

- The Boards of TWUHL and TWUF could seek to place those entities directly into administration by way of a Directors' appointment.
- This would require five clear business days' notice being provided to the Security Trustee (who would have the right, acting on the instructions of the requisite majority of WBS creditors to appoint its own nominated administrator during that period, under its Qualifying Floating Charge).
- Alternatively, a Court application could be made, potentially in conjunction with any application to place TWUL into SAR (albeit the Security Trustee would retain the right to make a QFC appointment at any time).
- Irrespective of which route was taken, the administrators of these entities would have a different primary objective to a SAR of TWUL. It is therefore possible that different Insolvency Practitioners would be appointed over TWUHL and TWUF than over TWUL (albeit if an "in-Court" appointment, there is the potential for the timing of all appointments to be aligned).

TWUL: Appointment Process

- The process to place TWUL into administration would be different, as it is subject to the provisions of the Water Industry Act 1991, which sets out that relevant entities can only be placed into a SAR by an order of the Court, following either:
 - An application by either the SoS for the Department for Environment, Food and Rural Affairs ("Defra"), or Ofwat (with the consent of the SoS); or
 - A petition for a winding-up order, which the Court would otherwise have granted, had the company not been a Regulated Water Company.
- The Board of TWUL would therefore need to invite Ofwat and the SoS to place the company into a SAR.
- It is possible that the business may need to trade for a short time following this invitation, during which the proposed appointees would liaise with HMG, finalise funding agreements, agree communications plans, and prepare Court applications.
- This period would need to be as short as possible, particularly given the potential for:
 - A failure of the Plan to ultimately trigger a Standstill, resulting in significant operational disruption;
 - TWUL and TWUF's listing obligations to require them to make a timely market announcement regarding the Board of TWUL's decision (thereby alerting all stakeholders of the imminent insolvency);
 - The potential disruption to the business during the period, as suppliers seek to understand the impact of an insolvency on them, and potentially withdraw or suspend services pending clarity;
 - Adverse reaction from employees concerned about their employment status; and
 - Vulnerable customers to be concerned about the impact on them of a SAR.
- We have therefore assumed that in the event of the Plan not being sanctioned at the Sanction hearing on 20 Jan 25, the business would be placed into a SAR within a matter of days (i.e. by the month end).

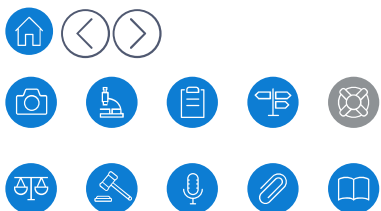
Relevant Alternative overview

Administration strategies

Following a failure of the Plan, we anticipate the Board of TWUL would invite Ofwat and the SoS to place the company into a SAR.

At the same time, we would expect the Boards of TWUHL and TWUF to seek to appoint administrators over those entities.

However, TWUL is the only entity with any operational assets and external trade.



TWUHL and TWUF: Administration strategy

- The purpose of these administrations would follow the hierarchy set out in statute, being (in summary):
 - i. Rescue the companies as going concerns; or
 - ii. Achieve a better result for the creditors as a whole than if the companies were wound up; or,
 - iii. Realise property to make a distribution to one or more secured creditors.
- In this case we would expect the 3rd limb to apply, given that neither entity trades, or holds assets which would be adversely impacted by a liquidation.
- Based on the latest available balance sheets (see Restructuring Plan Overview section), assets in TWUHL are limited to:
 - Shares in TWUL (TWUHL only);
 - Intercompany debts from TWUL (likely to be of nil value in a groupwide insolvency); and
 - Cash (likely to be minimal in an insolvency).
- Similarly, creditor claims would consist of:
 - Intercompany balances due to other members of both the Group, and wider Kemble Group; and
 - Secured amounts owed to the WBS creditors.
- In practice, the administrators would primarily expect to deal with any sundry cash balances on appointment.
- The outcome for the administrations of TWUHL and TWUF would be largely dependent on the outcome of the SAR of TWUL (see opposite).
- We would expect that the administrators of TWUHL and TWUF would liaise with the SA of TWUL in order to deliver the best outcome for TWUHL and TWUF creditors. This could involve supporting the delivery of a solvent rescue of TWUL (which could be to the benefit of the Group WBS creditors which also have claims in TWUHL and TWUF).

TWUL: SAR strategy

- The objectives of a SAR differs to a normal administration, with the primary objective being:
 - A Rescue of the company; or
 - A transfer the business as a going concern.
- The SA also have the statutory objective to continue to carry out the business's activities/functions pending a rescue or transfer.
- Consequently, a closure or "liquidation style" administration is not possible, and the business must continue to trade until it can be rescued or sold.
- As a result, the key components of the SAR strategy would be:
 - **Water and sewerage services continue** to TWUL's customers;
 - **Capital expenditure programmes are maintained;**
 - The SA would seek to **comply with the relevant licence conditions** to ensure, as far as possible, TWUL minimises the business's exposure to the risk of any enforcement or revocation action;
 - **Funding would be obtained from HMG** to allow the business to continue to trade as normal, and operate in line with its most recent regulatory settlement; and
 - In parallel, the SA would conduct a **full M&A process** in order to seek a rescue or transfer of the business.
- The remainder of this section sets out our consideration of the strategy in a SAR of TWUL, together with the potential exit routes and implications for funding requirements in a SAR.
- This is relevant to the "no-worse off" test for the creditors of TWUHL, given the cross-guarantees in respect of the WBS facilities. We expect that these would mean that the WBS creditors to TWUF & TWUHL would be reliant upon the SAR of TWUL for any material recoveries against their debts.

Relevant Alternative overview

Outline SAR process

The statutory objectives of a SAR are to:

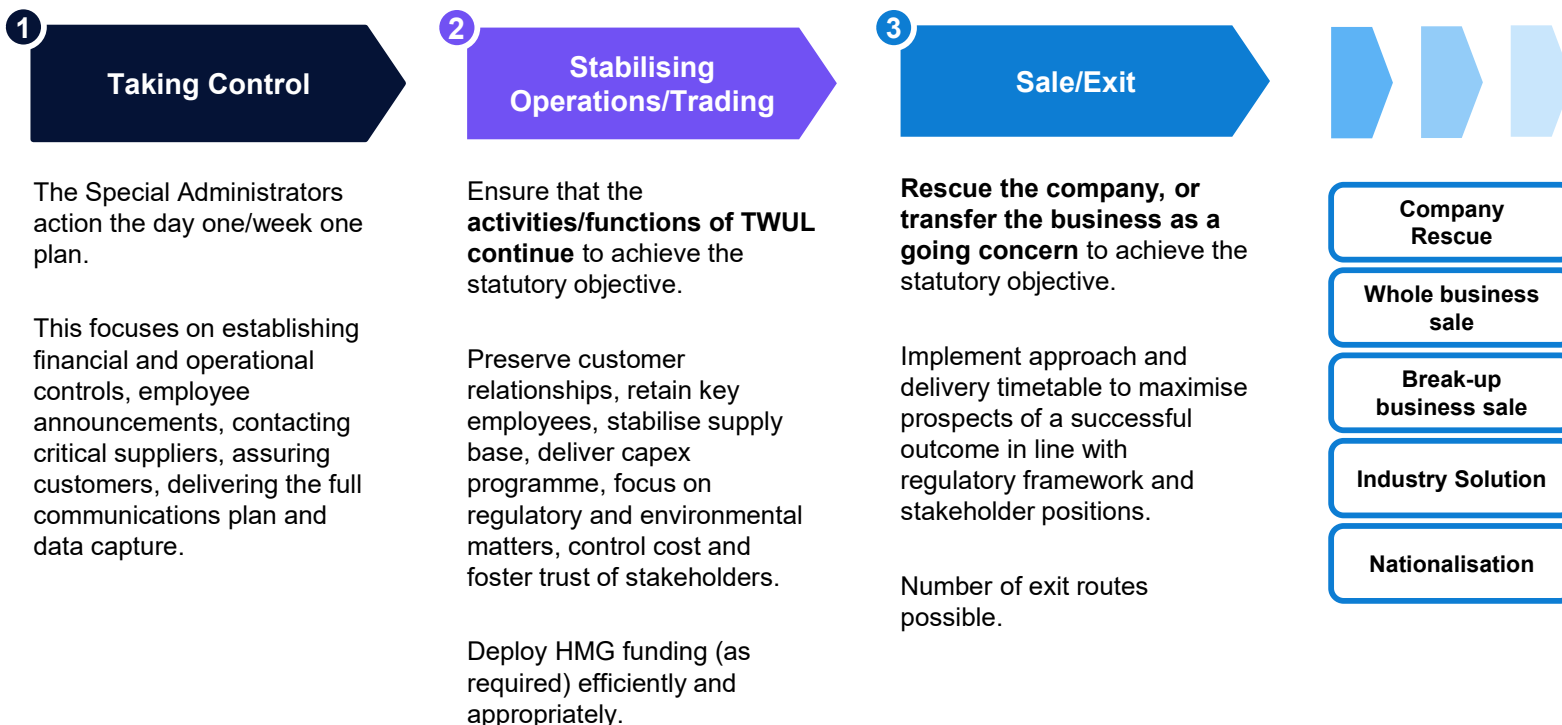
- 1) Rescue the company, or transfer the business as a going concern; and
- 2) Continue to carry out its activities/functions pending a rescue or transfer.

There would be three primary phases to a SAR:

- i. Taking control;
- ii. Stabilising Operations/Trading; and
- iii. Sale/Exit.

Role of the Special Administrators

Pre Appointment Planning – Ensure TWUL, Ofwat, HMG and The Special Administrators are legally, operationally and financially ready to proceed with the appointment to minimise risk and disruption.



Relevant Alternative overview

SAR Funding

The SAR would require funding from HMG to continue to trade as normal and operate in line with TWUL's most recent regulatory settlement with Ofwat.

This funding requirement would be impacted by additional cost pressures during a SAR, requiring the overlay of additional costs onto the base forecasts.

SAR Funding Requirement

- We have considered the level of HMG funding that might be required in the event of a SAR at TWUL. This is based on TWUL's Base and Sensitised Forecasts, albeit impacted by two key dynamics.

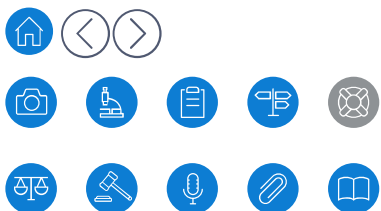
1) *Creditor moratorium*

- Creditor claims related to debts arising prior to appointment would be provable claims only and payable according to a strict statutory waterfall. Consequently:
 - No interest, hedge accretion or capital repayments (including debt maturities) would be paid to the WBS creditors during a SAR;
 - Amounts owed to trade suppliers for work undertaken/goods supplied prior to appointment would be provable (subject to the below commentary);
 - Any outstanding regulatory fines would likely also be provable (subject to the below commentary); and
 - Payments to TWUL's defined benefit pension schemes (including deficit recovery contributions) would be suspended, with the defined benefit schemes entering a Pension Protection Fund ("PPF") assessment period.
- However, in practice it is unlikely that there would be material cash savings from the claims of trade suppliers and regulatory fines ranking as provable debts, given:
 - Non-payment of pre-appointment regulatory fines may constitute a licence breach post-appointment and therefore need to be settled as an administration expense. Based on our experience on Bulb Energy, we would expect this position to be formalised by Ofwat/HMG as a condition of the provision of funding by HMG; and
 - Unpaid suppliers may withdraw services, and/or remove materials and work which has not been paid for. Given the statutory purpose of the SAR, and the potential impact on London and the Thames Valley of even a minor interruption to supply, this risk would likely need to be mitigated by paying arrears ("ransom payments") to suppliers.

- Our SAR funding forecasts therefore reflect the impact of the non-payment of provable claims through the removal of debt service payments (albeit interest would continue to accrue on secured claims) and deficit repair payments to the defined benefit pension schemes, with trade suppliers and regulatory fines continuing to be paid on an ongoing basis.

2) *Additional costs:*

- We would expect the SAR to experience significant cash pressures from a variety of sources, including:
 - Suppliers (who may increase prices, and/or demand improved credit terms);
 - Employee retention programmes;
 - Additional costs of dealing with employee attrition in relation to recruitment and agency;
 - Increased levels of bad debts;
 - Professional fees; and
 - Interest charged on HMG debt borrowed to fund trading (which would be an expense of the SAR).
- Under s.233B of the Insolvency Act 1986 (as applied in a SAR), suppliers (other than those providing financial services) are prohibited from exercising termination rights under supply contracts as a result of a customer entering into an insolvency process, or making the payment of provable claims a condition of ongoing supply.
- However, in practice these provisions are not automatic and can be difficult to enforce, noting that:
 - Not all costs are governed by a contract, and where there are contracts in place these don't necessarily include an obligation to supply;
 - Where costs are subject to a contract (e.g. IT & Software), these are often 12-month contracts, where price rises may be demanded as part of renewal/extension negotiations; and
 - It can take time to injunct a supplier under s.233B. There can therefore still be a period of disruption in the meantime.
- Our SAR funding forecasts reflect these risks through the inclusion of SAR overlays to TWUL's forecasts, as detailed over the following pages.



Relevant Alternative overview

SAR Funding

The SAR would require funding from HMG to continue to trade as normal and operate in line with TWUL's most recent regulatory settlement with Ofwat.

This funding requirement would be impacted by additional cost pressures during a SAR, requiring the overlay of additional costs onto the base forecasts.

Ranking of SAR funding

- HMG funding provided during a SAR would be an expense of the administration.
- The repayment of this funding would therefore rank ahead of any distributions to floating charge creditors, but behind any fixed charge distributions (other than to the extent the funding was incurred in order to realise or preserve fixed charge assets).
- As stated earlier, for the purposes of this report we have been instructed to assume that "all of the Thames Water Group's assets are subject to the floating charge created pursuant to the Security Agreement" (as set out in the Instruction Letter).
- Consequently, any HMG funding is treated as ranking ahead of the WBS financing arrangements.



Relevant Alternative overview

SAR overlays

We have assumed a 20% uplift in people costs during a SAR, reflecting employee retention programmes, and the potential for difficulties attracting replacement staff during the SAR.

Overview

- As set out previously, in the event of a SAR, the SAs would be required to achieve the statutory objectives of the SAR, and therefore:
 - Maintain Totex spending;
 - Ensure the confidence of the supply chain and employees in the business;
 - Ensure continuity of services to customers;
 - Adhere to regulatory requirements; and
 - Ensure stability of the ongoing business.
- During this period there would be an increased level of perceived risk associated with TWUL as a counterparty.
- We have therefore applied overlays to TWUL's sensitised forecasts, to reflect our expectation that the cost of running the business will increase in a SAR, including:
 - Suppliers may demand better payment terms/pricing;
 - It may become more difficult to attract and retain employees; and
 - Bad debt levels may increase, as customers view the SAR as an opportunity/reason to withhold payments.
- The following SAR overlays have therefore been applied to TWUL's Base and Sensitised forecasts, each of which is considered in more detail in this section:

Key Assumptions - SAR Funding Forecast Overlays

SAR Overlay	Assumption uplift (%)	SAR Overlays Monthly average (£'m)
1) People Costs	20%	(7.3)
2) Bad Debt Provisions	2%	(5.0)
3) Materials	10%	(0.9)
4) Insurance	50%	(3.0)
5) Other Operating Costs	10%	(6.0)
6) Professional Fees	Budgeted	(5.4)
7) Capex	10%	(24.2)
8) Credit terms	50%	Variable
9) HMG interest	9.50%	Variable

Source: TWUL IBP25, OPEX ANALYSIS 1.XLSX and Teneo analysis

People Costs

Background

- During the most recent financial year the Group employed c.8,000 people and incurred total employee costs of £507m.

Impact of SAR

- TWUL's employees are represented by three different recognised Trade Unions, who would expect to influence employee decisions in a SAR. Furthermore, we would typically expect people costs to come under pressure in a SAR, given the following dynamics:
 - Retention** of people (particularly those in critical roles) becomes more difficult. The reasons for this can vary by employee/grade, but can include:
 - Perceived loss of autonomy, as key decision making is centralised within the special administrators' team;
 - Public scrutiny over remuneration packages;
 - Changes in workload, as new ways of working are introduced in some areas, which can impact an employee's view of their role;
 - Perceived risk of redundancy, with cost reductions often made for economic reasons in an insolvency (albeit this may be less likely in a SAR, given the statutory requirement to maintain operations);
 - Limited visibility over the future direction of the business (the timing of sale and who the buyer might be); and
 - Loss of morale if other benefits are restricted as a result of the SAR (e.g. defined benefit pensions).
 - The key objective of any retention strategy would be to promote operational stability, prevent an increase in attrition and loss of key employees.
 - Recruitment** of new/replacement staff is also expected to be challenging, impacted by the perceptions listed above, which may deter prospective employees from applying for roles at TWUL during a SAR.
 - The consequence of this is that it becomes necessary to fill vacancies using more expensive agency labour/contractors during the SAR.

1 SAR Overlay Applied: 20% uplift (c.£7m pm)



Relevant Alternative overview

SAR overlays

Bad debts are assumed to increase by 2%, as customers cancel Direct Debits in response to a perception that the business has effectively been nationalised.

We have assumed a 10% uplift in material costs during a SAR, to address the potential reaction from suppliers.



Bad Debts

Background

- The majority of TWUL's revenues are derived from householders, after having sold its non-household retail business to Castle Water in 2017.
- During the most recent financial year the Group recognised a bad debt expense of £89m, representing 3.7% of underlying revenues.
- When adjusting for bad debts associated with prior years, the charge reduced to £49m, being 2.0% of underlying revenues.
- This broad level of bad debt expense is assumed to continue in the forecast.

Impact of SAR

- We expect the business to experience an increase in bad debts during a SAR, given the following dynamics:
 - The high profile/public nature of any SAR, increasing the chance that customers feel empowered to withhold payments;
 - Customer perceptions of anticipated bill increases during AMP8. We appreciate that this would also be an issue outside of a SAR, but believe there to be an increased risk where customers see the business being funded by Government in a SAR; and
 - The potential for co-ordinated campaigns (either on social media, or by word-of-mouth) to withhold bill payments. This could be driven by political views (e.g. perceptions around nationalisation) or misunderstandings about the nature of a SAR (e.g. that bills are being used to repay creditors, or that a Government funded entity wouldn't pursue all available debt recovery actions etc).
- These risks are potentially exacerbated by the business's monopoly position, which means that it supplies whole families/neighbourhoods/demographic groups.
- The above could manifest through a combination of Direct Debit cancellations, and non-payment of bills by customers.
- In our experience we have seen an increase in bad debts on consumer facing businesses in insolvency.

2 SAR Overlay Applied: 2% charge (c.£5m pm)

Material Costs

Background

- In the most recent financial year TWUL incurred £88.5m of raw materials and chemicals reported within operating expenses.
- These are critical to the treatment of water and wastewater, and in some cases can only be stored for a short period of time (impacting the ability to hold buffer stock).

Impact of SAR

- There are only a relatively small number of specialist suppliers/manufacturers for certain materials required by TWUL a number of which are already requiring payment shortly after delivery.
- In addition, there is an expectation from the Group that demand will increase in AMP8, given the levels of growth forecast.
- We understand from discussions with TWUL's purchasing teams that chemicals are not typically contracted for under framework agreements, with the business instead issuing a large purchase order at the start of each year, against which deliveries are called off on a daily basis.
- We anticipate that in the event of a SAR there would be:
 - A short-term suspension of deliveries, as the suppliers seek:
 - Comfort that any unpaid invoices are settled, and
 - Assurances that payment will be received for ongoing supplies (potentially requiring up-front payments, at least initially).
 - Issues with larger/international suppliers withdrawing supplies on the basis of credit insurance being withdrawn as a result of the SAR;
 - Suppliers seeking to mitigate their perceived risk and/or take advantage of the situation by increasing prices; and
 - Less willingness to agree competitive pricing with TWUL in return for long term purchase commitments, given its uncertain future as a result of the SAR (e.g. its long-term ownership will be unknown, and there may be a perceived risk that the business will be "broken-up").

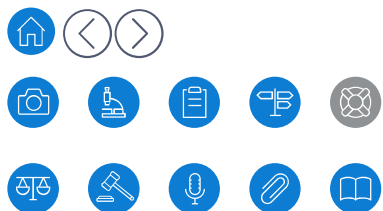
3 SAR Overlay Applied: 10% uplift (c.£1.0m pm)

Relevant Alternative overview

SAR overlays

A more material uplift of 50% has been assumed in respect of insurance costs during a SAR, given the increased level of perceived risk from insurers, and self-insured risks.

We have assumed a 10% uplift in other operating costs during a SAR, to address the potential reaction from suppliers.



Insurance

Background

- TWUL reported a £40m insurance expense in its FY24 financial statements, covering a complex set of insurance policies for various types of claims, arranged through TWUL's insurance broker, including:
 - Property damage/business interruption;
 - UK terrorism (primary & excess);
 - Employers' liability (primary & excess);
 - Public & products (primary and four layers of excess);
 - Motor fleet;
 - Pensions (primary & excess);
 - Construction;
 - Directors & officers (primary & three layers of excess);
 - Personal accident & travel; and
 - Marine.
- As noted above, some of these policies are complex, with multiple "layers" of cover, and in some cases include other entities within the wider group.
- We also understand from Management that an element of the public & products cover is effectively self-insured.

Impact of SAR

- In the event of an insolvency, it is standard practice to temporarily put in place "open cover" with insurers, whilst existing arrangements are reviewed and confirmed.
- Insurance arrangements do not benefit from the protection of s.233B of the Insolvency Act 1986 (as applied in a SAR), and it is therefore possible that a number of insurers will use the SAR appointment as an opportunity to either withdraw cover, or seek improved terms.
- These policies are complex and cover some unusual and high risk exposures (e.g. tunnelling). As a result, it is likely that it will be difficult to replace the existing policies on a like-for-like basis without an uplift in prices.

4 SAR Overlay Applied: 50% uplift (c.£3m pm)

Other Operating Costs

Background

- TWUL incurred £1.3bn of net operating expenses before depreciation and amortisation in FY24.
- After adjusting for certain cost categories which have either been considered separately for SAR overlays (e.g. people costs), or where no SAR overlay is considered necessary (e.g. rates), there remains expenditure of c.£0.6bn, including:
 - Water and Waste networks (£150m);
 - Maintenance (£110m);
 - IT & Software (£96m); and
 - Other third-party costs (£266m)
- These costs are considered critical to running the operations, with maintenance costs (for example), including tackling water leaks, where suppliers are highly mobile and price sensitive.
- TWUL has limited alternative contracting parties to easily provide additional/alternative resource supply.

Impact of SAR

- As with supplies of materials, we anticipate that in the event of a SAR there is the potential for services to be suspended on appointment, as suppliers seek both:
 - Comfort that any unpaid invoices are settled, and
 - Assurances that payment will be received for ongoing supplies (potentially requiring up-front payments, at least initially).
- In addition, it would not be unusual to experience:
 - Issues with larger/international suppliers withdrawing supplies on the basis of credit insurance being withdrawn as a result of the SAR;
 - Suppliers seeking to mitigate their perceived risk and/or take advantage of the situation by increasing prices; and
 - Less willingness from suppliers to honour previously agreed prices, given uncertainty around the future.

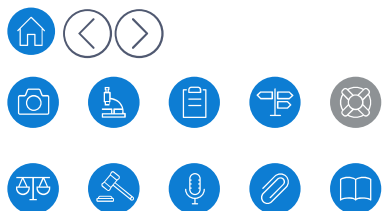
5 SAR Overlay Applied: 10% uplift (c.£6m pm)

Relevant Alternative overview

SAR overlays

Professional fees have been estimated by reference to a high-level time cost budget we have prepared for the Special Administrators, together with assumptions around legal and M&A costs.

We have assumed a 10% uplift in Capex during a SAR, to address the potential reaction from suppliers, in particular noting that the business would have difficulties placing long term commitments with suppliers.



Professional fees

Background

- In the event of a SAR, the day-to-day operations of the business would be overseen by the Special Administrators and their team, assisted by:
 - Legal advisors, who would input into a variety of matters including general trading issues, together with larger legal disputes and the M&A process/deal structuring; and
 - M&A advisors, who would use their specialist expertise, knowledge and contacts to run the M&A process on the SA's behalf (overseen by the SAs).
- It is also possible that any purchaser would require a deed of release from the Security Trustee, in which related legal fees could be recharged to the SAR.

Impact of SAR

- We have prepared high level budgets for professional fees in the event of a SAR, as set out in the table below:

SAR Professional Fees estimate

	Hours '000s	Cost £'m
Administrators fees		
Central	13.8	7.9
Finance	29.9	12.1
Operations	28.9	11.7
Capital Delivery	15.4	6.8
Retail	11.5	4.8
People	5.4	2.4
Business Sale	4.6	2.1
Insolvency Delivery	18.4	5.1
Other workstreams	20.0	9.5
	148.0	62.5
Legal fees		25.0
M&A Advisors		10.0
Secured Creditor Legal fees		0.5
		98.0
Monthly cost		5.45

Source: Teneo analysis

6 SAR Overlay Applied: c.£5m pm (per budget)

Capex

Background

- TWUL has submitted detailed business plans to Ofwat, setting out its proposals for a ramp up of capital expenditure over AMP8.
- This translates into a forecast cost to the business of c.£4.3bn during an 18-month SAR commencing in Feb 25 (average cost of £240m per month).
- We understand from the Group that TWUL has insourced most of its capital delivery functions, and that team resource is currently at capacity in delivering the remaining AMP7 programme. There is consequently a need to recruit further to be able to deliver the AMP8 forecasts.
- In addition to the insourced elements, c.25% of the capital delivery function is supported by third party contractors, with TWUL currently managing 11 main contractors in AMP7 (compared to six in AMP6).
- AMP8 framework arrangements are underway across the sector, and it is therefore important that TWUL can maintain its current supplier framework arrangements to enable AMP8 delivery.

Impact of SAR

- It is unusual for an insolvency estate to incur any material capital expenditure, other than where necessary to protect/generate value from an asset.
- This position would differ in a SAR of TWUL, where incurring ongoing capex is an essential part of the business, and a requirement of the regulator.
- As a result, capex would need to continue as planned throughout the SAR.
- However, the SAR would present an opportunity for suppliers to revisit commercial terms (given lack of capacity in contractor base, and difficulty placing long-term commitments in administration). Pricing for long term capital delivery would be challenging with potential for movement from fixed contracts to cost plus arrangements at a higher cost.
- Given that it is critical to the AMP8 capex program that TWUL is able to maintain its supplier network, the SAs may need to agree to amend commercial terms.

7 SAR Overlay Applied: 10% uplift (c.£24m pm)

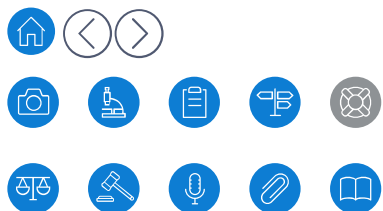
Relevant Alternative overview

SAR overlays

50% of supplier payments are assumed to be brought forward by a month, in response to pressure to improve credit terms during a SAR.

We have assumed that HMG funding would attract an interest charge of 9.5% pa.

This is based upon reference to a range of data points, but would ultimately be determined by HMG when agreeing the terms of an Administration Funding Agreement.



Credit Terms/Ransom Payments

Background

- The base forecasts used to prepare the illustrative funding forecasts assume that creditors continue to be paid as usual (i.e. to historical terms).
- TWUL's latest Payment Practices Report (dated 31 Mar 24) states that it takes an average of 58 days (i.e. two months), to pay invoices, with standard payment terms of between 1 and 91 days.
- Consequently, the supplier payments included within the first two months of the base forecast are largely assumed to relate to services provided prior to the SAR appointment.

Impact of SAR

Ransom Payments

- Given the above, it is likely that an element of the first two months' forecast expenditure would not be paid, as a large proportion would represent provable claims against TWUL.
- However, we consider there to be a number of risks to ongoing services if suppliers withdraw their services (even for a short period) following non-payment.
- There is therefore a high likelihood that "ransom payments" of unsecured amounts would need to be made to critical suppliers to mitigate the risk of supplies being interrupted, particularly given the purpose of a SAR to maintain continuity of service.
- These ransom payments have not been explicitly included as an overlay, as the use of the base forecasts inherently assumes that payments are made.

Accelerated Terms

- In addition, whilst creditors are likely to seek the payment of historical debts, a number may also request acceleration of their existing credit terms, given their perception that TWUL is less credit-worthy in a SAR.
- This could create an additional working capital requirement towards the start of the SAR, as the average time to pay invoices is reduced from the current 58 days.

8 SAR Overlay Applied: 50% accelerated by one month

HMG Interest

Background

- As set out previously, TWUL would be unable to draw down further debt on its WBS facilities during a SAR and would instead need to establish an HMG funding line.
- The cost of this could take the form of either cash pay interest (which would therefore require additional lending to pay), or accrued interest (which would roll into the debt to be repaid on exit). Practically, both would have the same effect.
- This funding would be documented within an Administration Funding Agreement, which the SAs would need to negotiate and agree ahead of a SAR.

Impact of SAR

- We understand from previous discussions with HMG that its guidance requires it to charge a "commercial rate" of interest on any lending of this type. This would be determined at the date of a SAR, based on HMG's assessment at the time.
- In the absence of clear guidance from HMG on the interest rate it would charge, we have sought to estimate this, by reference to a range of data points, including:
 - The current yield on Class A debt, based on market yields as at 29 Oct 24, being c.9.67%;
 - The level of interest proposed to apply to the Super-Senior facility, being 9.75%; and
 - The interest rate applied by HMG when agreeing the AFA used to fund the SAR of Bulb Energy (4.72%, as reported by the National Audit Office, representing a 4.62% margin on the base rate of 0.10% at the time it was agreed). This margin would currently equate to a rate of 9.37% (based on current base rate of 4.75%).
- We have also assumed that HMG funding would be in the form of a RCF style facility, with an agreed drawdown mechanic on a regular (e.g. monthly) basis, and interest accrued only on drawn balances.

9 SAR Overlay Applied: 9.50%

Relevant Alternative overview

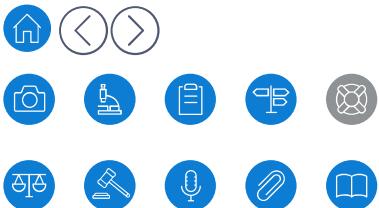
Exit routes

We have identified five potential exit routes from a SAR, with a Rescue being the primary/preferred exit under the legislation.

Overview

- We have identified a range of potential exit routes from a SAR, as set out below.

Whole business	1 Company rescue (c.12-24 months) <i>Debt restructuring and sale of the shares in TWUL.</i> <ul style="list-style-type: none">Primary purpose within the WIA 1991.Likely delivered using an English RP to amend secured debt.Could result in a sale of TWUL (including its business) to a new investor, or to facilitate a debt for equity deal.	2 Whole business sale (c.12-24 months) <i>Transfer of business into a Newco (utilising Water Transfer Scheme), and potential sale of the shares.</i> <ul style="list-style-type: none">Only to be pursued if the SA believes that a Rescue is not possible, or a transfer is likely to secure more effective performance of the regulated functions or activities.Transaction could be undertaken with or without an element of debt transfer.
	Break-up	3 Break-up business sale (c.36 months+) <i>Separation of the business (likely into smaller standalone Newco's), to be sold to equity investors (utilising Water Transfer Schemes) requiring separated new licences.</i> <ul style="list-style-type: none">Transaction could be undertaken with or without an element of debt transfer.Detailed operational, legal and regulatory separation required to implement.
5 Nationalisation <i>Business is nationalised, likely utilising one of the exit routes set out above.</i> <ul style="list-style-type: none">Considered to be a last resort option, in the event an acceptable market-driven solution cannot be identified.		



Relevant Alternative overview

Exit routes

For the purposes of our Relevant Alternative analysis we have assumed that the most likely exit route would be a Whole Business Sale, delivered using a Water Transfer Scheme.

Whole Business Sale vs Break-up Sale

- We believe that any SAs of TWUL would initially focus on seeking an exit of the whole business, rather than a break-up. This is driven by a number of factors, including:
 - The additional complexities associated with a break-up, which would require extensive planning and operational separation, which would likely need to be undertaken before the M&A process commenced;
 - Operational disruption that may result from the separation process;
 - The need for purchaser(s) to have clarity over the allocation of assets/RCV/regulatory position/new licence requirements and obligations/overheads/employees etc, and confidence that each broken-up entity could be run on a standalone basis;
 - The timescales associated with delivering a break-up; and
 - The level of HMG funding that would be required for a prolonged trading period.
- Consequently, we consider that a break-up would only be pursued as a fall-back option.

Conclusion: We consider that the most likely exit route to be successful in a SAR would be a Whole Business Sale delivered using a WTS (with the existing WBS creditors participating in Newco's debt structure - see possible transaction structure overleaf). We would comment that, if the preferred exit of a company rescue could be delivered, it is likely that this would attract a very similar enterprise valuation.

Nature of Whole Business Sale

- As set out previously, a Company Rescue is the preferred outcome from a SAR in the WIA.
- However, we consider that a buyer may prefer utilising the WTS, in particular given:
 - Our view on buyers' perceptions of acquiring a legacy legal entity, which may include unknown levels of contingent liabilities (with no warranties provided by the SA);
 - The likely preference from buyers to leave behind liabilities that are not required as part of ongoing trading (e.g. defined benefit pension schemes); and
- Consequently, it is assumed that a buyer would prefer to transact through a WTS.
- This would allow all necessary assets, employees, contracts and licences to be transferred to a Newco, whilst selected liabilities are left behind (see overleaf).



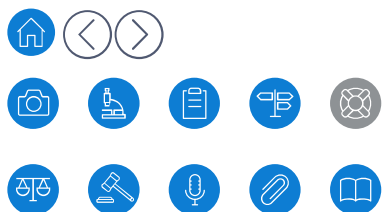
Relevant Alternative overview

Transaction structure

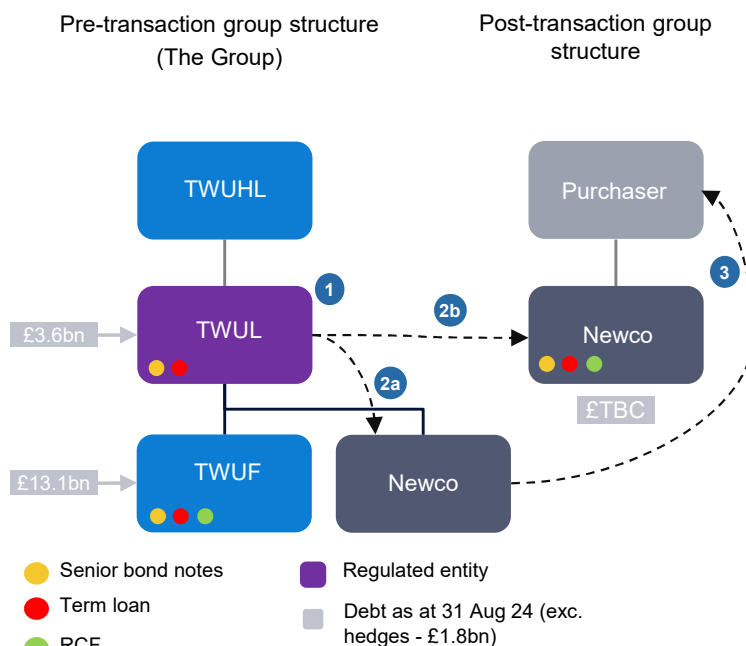
A WTS could be used to sell a clean new entity, with an element of the Group's WBS debt participating.

This would mitigate the risk that a purchaser was unable to raise sufficient new debt to finance the transaction (given the size of the business).

We consider this to be the most likely structure used to deliver a sale.



Whole Business Sale



Transaction Steps

- 1 Debt restructuring (potentially via a UK RP) undertaken to amend/split the WBS debt.
 - WTS used to transfer business and assets, contracts, regulatory licences, working capital balances, and elements of debt into either:
 - 2a A newly formed Newco, owned by TWUL (a Hive Down); or
 - 2b An entity already owned by the purchaser (a Hive Across).
- 3 In the Hive Down option, the shares in Newco would be sold to the purchaser, with the proceeds (albeit likely a nominal value) used to fund distributions to remaining creditors, in the statutory order of priority.

Overview

- We believe that the most likely transaction route out of a SAR of TWUL would be a business and assets sale, using a WTS. This page sets out one potential structure to deliver this option, with other structures potentially available (albeit intended to achieve the same economic outcome).
- This would ensure that all necessary assets, employees, contracts and licences were transferred to a Newco, whilst selected liabilities are left behind.
- We assume that the defined benefit pension schemes would remain with TWUL and enter into the PPF assessment period.
- Given the size of the business, and its potential value based on the expert valuations, we consider it less likely that a purchaser would be willing or able to buy the business in cash with a completely new debt package. A purchaser is likely to prefer to deploy any available cash as investment into the business.
- Consequently, we anticipate that a purchaser would most likely seek the participation of the WBS creditors' debt (based on their ranking in the creditor waterfall), together with any HMG debt incurred during the SAR (which may then be refinanced, in order to repay HMG).
- In order to achieve this, an RP or scheme of arrangement could first be used during the SAR to restructure the WBS debt into two elements, being:
 - “Performing Debt”, which a purchaser is willing to take-on (restructured and reprofiled, and aligned with the value the purchaser places on the business); and
 - “Residual Debt” to be left behind in TWUL.
- The WTS would then be used to hive down/across:
 - The business and assets, employees, contracts and licences;
 - Working capital balances, including trade creditors and accruals; and
 - HMG funding and the Performing Debt (see above).
- Any residual realisations would then be used by the SAs to make a distribution to the remaining creditors, following the statutory waterfall (albeit none are anticipated).
- In the scenario set out above, residual creditors may include the Residual Debt, defined benefit pension schemes (which are assumed to enter into the PPF) and any intercompany creditors.

Relevant Alternative overview

Timescales

We consider that the most likely outcome from a SAR would be a Whole Business Sale via a WTS, 18 months following an appointment.

Timescales

- As set out previously, we consider that the most likely outcome from a SAR would be a Whole Business Sale via a WTS.
- When assessing the timescales required to deliver a sale of this nature we have reflected upon the following:
 - It would first be necessary to ensure that a complex stakeholder group is aligned on strategy and approvals are obtained where relevant including HMG (Secretary of State, Defra, HMT, UKGI), Ofwat and other regulators, secured creditor groups, and Trade Unions;
 - The M&A process would commence once the SAs had stabilised the business, and developed an approach and strategy with an M&A advisor;
 - A full M&A process (rather than an accelerated process) would likely be required, to be able to demonstrate full market testing against the SAR backdrop and deliver best value;
 - Once a suitable offer is received, a lengthy process would be required to structure the deal/transact, including:
 - Undertaking a process to restructure the debt ahead of a WTS. This process could be run partly in parallel with preparatory work for the WTS;
 - Concluding a WTS, which could take at least two months, based on our experience of delivering an Energy Transfer Scheme (a WTS requires SoS or Ofwat approval and a separate Court hearing to appoint the effective time of the scheme);
 - The need to consult with employees; and
 - A requirement from the SoS to provide a detailed recommendation and extensive supporting counterfactual analysis before the transaction could be approved.
- The business would continue to trade as normal throughout these phases.

Conclusions

- Given the timing considerations set out opposite, we consider that a SAR would be broadly broken-down into three phases:
 - i. Stabilisation (Months 1-3): an initial period in which the SAs focus on establishing financial and operational controls, liaising with critical stakeholders, and agreeing the approach for an M&A engagement;
 - ii. M&A process (Months 4-12): a third-party M&A advisor is engaged to commence a full marketing process for the business, with a view to receiving final offers by month 12; and
 - iii. Structuring (Months 13-18): a final period where the necessary structuring is agreed and implemented to deliver the successful M&A offer (including approval of a WTS).
- **Consequently, we believe that the most likely timescale to deliver an exit from a SAR would be circa 18 months.**
- This timetable has formed the basis of our SAR funding forecasts/overlays used within our Relevant Alternative analysis later in this report.





Evaluation of Scenarios

General assumptions	59
Methodology	60
Step 1: Set out the routes to a transaction	62
Step 2: Consider TWUL's forecasts	63
Step 3: Consider sensitivities to forecasts	71
Step 4: Overlay specific SAR related costs	72
Step 5: Overlay specific Plan related costs and interest payable on existing debt	73
Steps 1-5: Summary	75
Step 6: Independent 3rd party valuation	77
Step 7: Set out the waterfall of creditor claims at the transaction dates	78



Evaluation of Scenarios

General assumptions

As set out previously, to make a “no worse-off” assessment we need to compare the two scenarios relevant to the Plan:

1) A successful Plan, followed with a final debt and equity deal supported by a Final RP; and

2) Failure of the Plan, followed by a SAR appointment, and an assumed subsequent transaction.

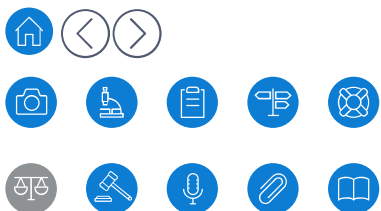
Overview

- As set out previously, to make a “no worse-off” assessment we need to compare two scenarios:
 - 1) A successful Plan, which Management assumes would be followed with a final debt and equity deal supported by a Final RP; and
 - 2) Failure of the Plan, which we consider would likely lead to a SAR appointment shortly thereafter.
- The following slides set out the seven detailed steps that we have followed in order to make this comparison.

General Assumptions

- Our analysis is based on estimated net recoveries for TWUHL’s creditors based on a transaction for the entire TWUL business in the relevant scenarios.
- We have assumed that the WBS creditors would claim from the Borrower and each of the Guarantors. In practice, any repayment would likely be received from TWUL, as the only trading entity within the Group (thereby reducing the value of the claim from those lenders against TWUHL).
- We have used a third-party independent valuation prepared by Mr Eraj Weerasinghe of Kroll Advisory Ltd who has rolled forward the valuation to assess the hypothetical valuation of the business at the key transaction dates in the future.
- We assume that all of the Group’s assets are subject to the floating charge created pursuant to the Security Agreement (as set out in the Instruction Letter).
- Consequently, we have assumed that any HMG funding during a SAR would rank ahead of any of the WBS debt for repayment.

- It should also be noted that our analysis:
 - Is focussed on TWUL as the only trading entity within the Group;
 - Assumes there would be a willing buyer of the business in a SAR, which is inherently uncertain and would require an extensive M&A process and likely the consent of HMG, Ofwat and WBS creditors; and
 - Does not include an audit of any information received.
- We have not considered the impact of tax for the purposes of our analysis or undertaken detailed tax analysis.



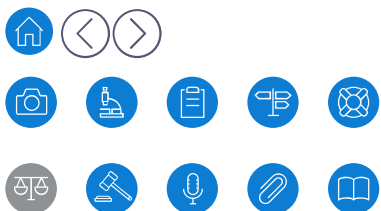
Evaluation of Scenarios

Methodology

We have set out the key steps to our approach in arriving at an illustrative return range.

The table compares the two scenarios across each of the seven steps.

	Scenario 1 - Plan and Final RP	Scenario 2 - Relevant Alternative (SAR)
Step 1 <i>Set out the routes to a transaction</i>	Data: Likely transaction date: Sep 25 Sources: Discussions with the Company, TWUL and its advisors (Rothschild & Co and Linklaters)	Data: Most likely transaction date: Jul 26 Sources: Teneo assessment (see decision tree later in this section)
Step 2 <i>Consider TWUL's forecasts</i>	TWUL forecasts on two bases: <ol style="list-style-type: none"> Sensitised Case: This assumes AMP8 DD is the AMP8 outcome and that TWUL recovers to perform at the "efficient frontier" of the regulatory model by the start of AMP9 Base Case: This assumes TWUL's DD response (IBP25 full case) is the AMP8 outcome and that TWUL recovers to the "efficient frontier" of the regulatory model by the start of AMP9 	
Step 3 <i>Consider sensitivities to forecasts</i>	Data: Risks facing the business that TWUL has considered but not included in its forecasts (notably, fines and the unfunded element of enforcement action). Sources: RNS announcement (25 Oct 24), Environmental Compliance and Regulatory Investigation presentation (25 Oct 24) and discussions with Management.	
Step 4 <i>Overlay specific SAR related costs</i>	N/A	Data: Basket of additional costs that may be incurred in a SAR period, including the cost of HMG funding Source: Company financials (see appendix 2), Teneo analysis
Step 5 <i>Overlay specific RP related costs and interest received on existing debt</i>	Data: Cash interest paid on existing debt between Plan and most likely transaction date Super-Senior debt cost Sources: Super-Senior term sheet, Teneo analysis	N/A
Steps 1-5	<i>The above steps enable assessment of the Super-Senior funding requirement to get to a transaction at Sep 25 (forming a key input into Step 7).</i>	<i>The above steps enable assessment of the HMG funding requirement to get to a SAR exit at Jul 26 (forming a key input into Step 7).</i>



Evaluation of Scenarios

Methodology

We have set out the key steps to our approach in arriving at an illustrative return range.

Step	Scenario 1 Plan and Final RP	Scenario 2 Relevant Alternative (SAR)
Step 6 <i>Independent 3rd party valuation</i>	Data: Independent expert valuation rolled forward to transaction date Sources: Independent valuation report from Mr Eraj Weerasinghe	Data: Independent expert valuation rolled forward to transaction date Sources: Independent valuation report from Mr Eraj Weerasinghe
Step 7 <i>Set out the waterfall of creditor claims at the transaction dates</i>	Data: Estimated value of each creditor claim for the various Classes as at the most likely transaction date This is then used as the basis of the “no worse-off” test (i.e. as the likely transaction dates are in the future, we have calculated what the creditor balance would be at that future point in time) Sources: Statutory creditor waterfall, discussions with Linklaters, WBS debt facility documents, Super-Senior Term Sheet, Bloomberg, TWUL analysis, Teneo analysis	
Steps 6-7	<i>The outputs from the steps above have then been combined to produce an estimated outcome for each class of creditors in both scenarios (see Estimated Outcome section)</i>	



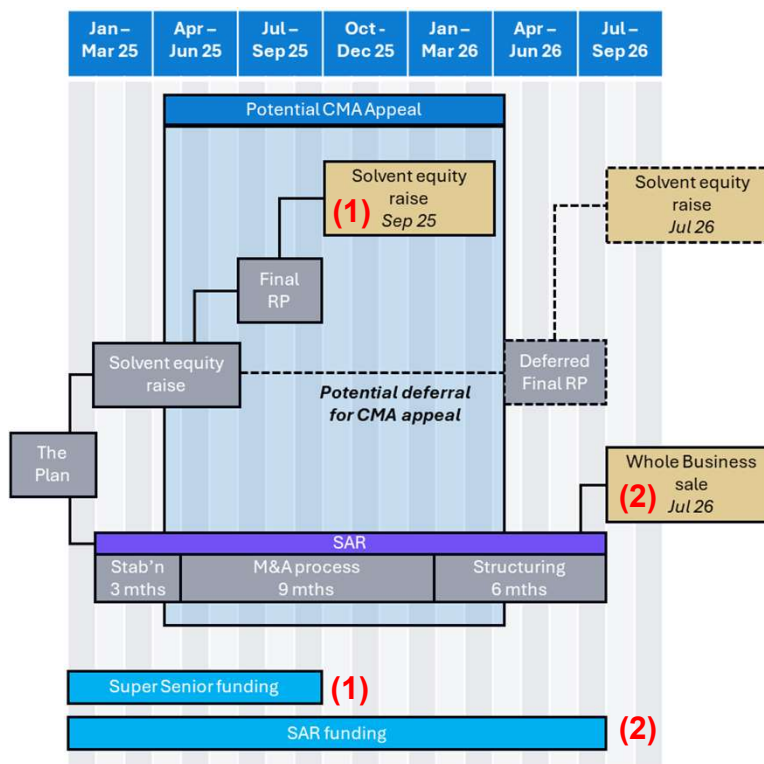
Evaluation of Scenarios

Step 1: Set out the routes to a transaction

We have concluded that the most likely transaction date in each scenario is:

- **Scenario 1 (Successful Plan and Final RP): 30 Sep 25**
- **Scenario 2 (Relevant Alternative): 31 Jul 26**

Step 1: Set out the routes to a transaction



See Steps 1-5 for detail on these respective funding requirements

Overview

- The first step in our methodology requires us to conclude on the most likely transaction date in both scenarios under consideration, being:
 - A successful Plan, followed with a final debt and equity deal supported by a Final RP; and
 - The Plan is not sanctioned, which we consider would likely lead to a SAR appointment shortly thereafter.
- The decision tree opposite summarises our conclusions on this, starting with the Plan, the results of which should be known by end Jan 25. At this point there are two most likely routes:
 - i. The Plan is successful, providing a platform to conclude the solvent equity raise process, and launch and deliver a Final RP by Sep 25. This timeline is based upon discussions we have held with TWUL's advisors, Rothschild & Co and Linklaters; or
 - ii. The Plan is not sanctioned, resulting in a SAR on 1 Feb 25. As set out in the Relevant Alternative Overview section of this report, we consider that there would be an 18-month period to a sale of the business, consisting of:
 - Stabilisation (three months: Feb-Apr 25);
 - M&A process (nine months: May 25-Jan 26); and
 - Structuring (six months: Feb 26-Jul 26).

CMA Appeal

- We note that the terms of the Super-Senior term sheet include an initial £1.5bn and provision for a further £1.5bn accordion facility in the event that a CMA appeal is triggered by Management. In this scenario it is possible that a final deal may be deferred by up to a year, as bidders wait for the outcome of the CMA process.
- However, this deferral is subject to certain stringent conditions within the facility documents, which would be outside the Group's control. Furthermore, the sales process contemplates a transaction in 2025.
- As a consequence, whilst a deferred Final RP into 2026 following a CMA appeal process is possible, we do not consider this to be the most likely outcome of the Plan.



Evaluation of Scenarios

Step 2: Consider TWUL's forecasts

Every five years Ofwat determines the amount of revenue, allowable expenditure and RCV growth that water companies should deliver across an asset management period.

Step 2: Consider TWUL's forecasts

Why we need to understand TWUL forecasts

- We need to understand the TWUL forecasts in order to calculate the funding required to get to a transaction in the Plan and Final RP (Scenario 1) compared to the Relevant Alternative (Scenario 2).
- The independent expert valuation also uses TWUL's forecasts.

Ofwat regulatory oversight

- As part of its regulation of the sector, every five years Ofwat sets a five-year plan (known as an asset management plan period ("AMP") for each Regulated Water Company. The eighth such AMP is under assessment to commence in Apr 25 – known as "AMP8".
- Ofwat applies a regulated asset base model. This provides an agreed return on approved deployed capital to fund the asset base. The model assumes agreed performance is met and that the company is able to deploy funds (operating costs and investment) consistent with a benchmark model.
- The process involves each water company submitting their proposed operating costs and capital expenditure plans and requesting a level of return on their accumulated regulatory capital value ("RCV") the business holds.
- Ofwat assess the company business plans and set a cost allowance that they determine to be an efficient spend for a water company on a total cost ("Totex") basis across Opex and Capex.
- Ofwat determines the permitted capital return allowed after applying an ideal debt and equity mix and assumed investment grade status (the weighted average cost of capital, "WACC") and sets the resultant revenue a company can recover from its customers. Ofwat also sets operational performance parameters which the company is expected to meet.
- This is currently being set for AMP8, with Ofwat's FD due on 19 Dec 24 (albeit could be later).

RCV and Revenue

- Under the regulatory framework, RCV is determined over each AMP by Ofwat and builds up as the business incurs approved capital expenditure to develop regulated assets. It is also adjusted for the impact of inflation on retained RCV.
- The RCV for TWUL as of 31 Mar 24 was £19.9bn and is one of the critical components for setting customer bills. When assessing revenue that TWUL can bill to customers, Ofwat considers (1) the efficient level of operating costs that would be recovered annually in revenue, and (2) the return on the regulatory capital invested in the business – the "RCV".

Regulated costs:

- Water companies submit their planned total expenditure ("Totex"), which covers both Opex and Capex, to Ofwat. These are split into three categories: Base, Enhancement and Retail, which are detailed below:

Base Totex:

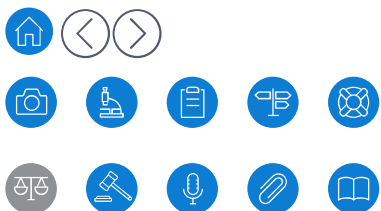
- Base Totex is the maintenance Opex and maintenance Capex required to keep the business running and providing a base level of service.

Enhancement Totex:

- Enhancement Totex is Enhancement Opex and Enhancement Capex relating to improving the quality or capacity of a service beyond its current level.
- This spend is split into specific schemes addressing certain improvements for example: storm overflows and Water Industry National Environmental Programme (WINEP).

Retail:

- Retail Opex is cost relating to serving household and non-household customers e.g. customer billing, customer service and debt management.



Evaluation of Scenarios

Step 2: Consider TWUL's forecasts

Overspending against cost allowances is not recovered within an AMP, and only a portion of the overspend will be recoverable via the cost sharing mechanism over the following AMP.

AMP8 is the next period (2025 to 2030) with the FD expected by Management from Ofwat in Dec 24.

Step 2: Consider TWUL's forecasts

Regulated costs cont.

Ofwat Totex allowance determination:

- Ofwat assesses the costs submitted by companies in order to determine a cost allowance they deem appropriate for the company to deliver the services and improvements required.
- For Base Totex Ofwat uses econometric modelling to determine efficient expenditure allowances.
- For Enhancement Totex the allowances are set using bespoke assessment models per scheme.
- Ofwat assesses Base and Enhancement spend at an aggregated Totex level.

Recovery of costs:

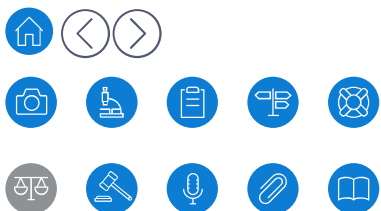
- The Totex allowance received from Ofwat is split into Opex and Capex based on a rate determined by the individual water company.
- Allowed Total Opex (Base, Enhancement and Retail) is recovered in year directly via revenue. Any overspend in Opex therefore cannot be directly recovered from customers and is effectively unfunded.
- Water companies are allowed to recover Retail Opex through revenue. A small margin is applied to the allowed Retail Opex in order to calculate the allowed retail revenue.
- Allowed Total Capex (Base and Enhancement) is added to RCV with a WACC return applied each year in the revenue calculation. A percentage of this balance (RCV run off) is also depreciated each year as part of allowed operating costs.

Cost sharing:

- Cost sharing refers to Ofwat's treatment of over or underspend against efficient cost allowances set for water companies. This is an end of AMP adjustment available for an element of overspend or underspend.
- The cost sharing rate on underspend captures the share of underspend that the company gets to keep, or the share of overspend that the company needs to bear.
- At the end of AMP8 TWUL expects that they will have to bear 60% of any regulatory overspend.

AMP8

- The plan for AMP8 is under discussion currently between TWUL and Ofwat, with a gap remaining between Ofwat views (DD) and the proposals submitted by TWUL (DD response).
- TWUL submitted an initial plan in Oct 23, later augmented by further investment proposals, notably around wastewater discharge improvement following Environment Agency engagement.
- Ofwat subsequently published in Jul 24 its DD for TWUL, which proposed lower revenue growth and significant efficiency challenges to deliver the proposed investment programme at materially lower cost.
- TWUL published a response to the DD in Aug 24, seeking much higher revenue allowances and support for greater investment scale.
- Ofwat has indicated that it will publish the AMP8 FD for TWUL on 19 Dec 24 (albeit could be later).



Evaluation of Scenarios

Step 2: Consider TWUL's forecasts

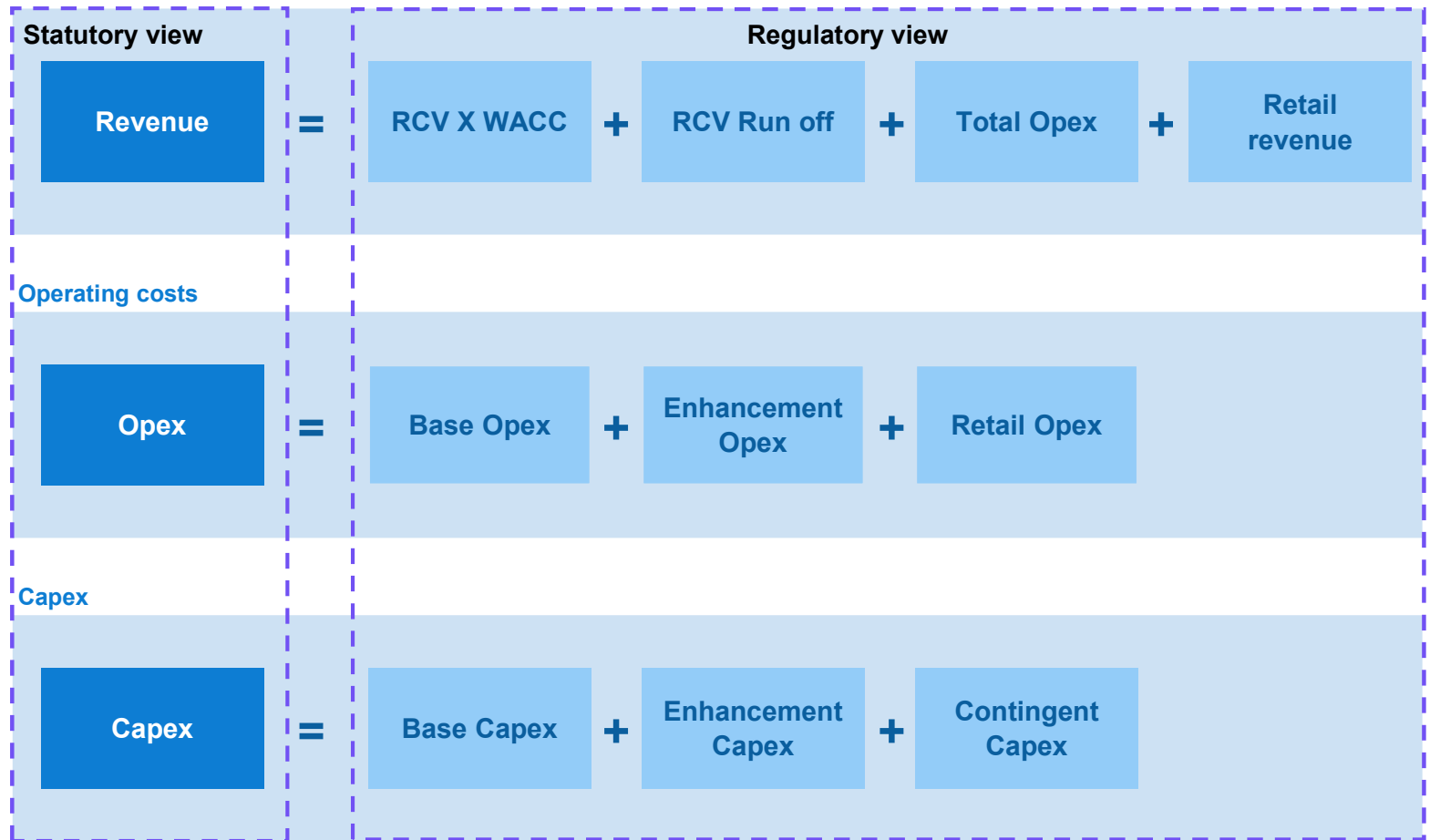
TWUL reports regulatory accounts and statutory accounts.

The regulatory allowances are broadly converted to statutory inputs for financial analysis.

Step 2: Consider TWUL's forecasts

Regulatory allowances & statutory financials

- TWUL reports regulatory accounts and statutory accounts. The statutory accounts are used as the primary basis to determine performance, compliance with covenants and raising new funding.
- The regulatory allowances are broadly converted to statutory inputs for financial analysis as shown below.
- The figures would then need to be adjusted for additional costs or revenues not provided for by Ofwat.



Evaluation of Scenarios

Step 2: Consider TWUL's forecasts

Summarised opposite are the key terms used by Ofwat and applied by TWUL in developing their forecasts for AMP8 and beyond.

Step 2: Consider TWUL's forecasts

Summary of key parameters determined by Ofwat

Parameter		Methodology
Core plan Totex	Opex	<ul style="list-style-type: none"> Ofwat aims to provide an efficient cost allowance based upon a sector benchmark approach. There are three building blocks for the Ofwat efficient expenditure allowances: <ul style="list-style-type: none"> Base Totex: routine costs (Opex and Capex) incurred in the normal course of business; Enhancement Totex: provision (both Opex and Capex) to improve services to customers or to meet enhanced environmental, quality and resilience measures; and Retail opex: costs relating to serving household and non-household customers e.g. customer billing, customer service and debt management. The primary driver of the Base Totex allowance is through econometric cost modelling undertaken by Ofwat, using sector wide benchmarking. The Enhancement Totex allowance is assessed on a specific scheme costs-model basis by Ofwat.
	Capex	
Contingent Totex	Delivery mechanism	<ul style="list-style-type: none"> For AMP8, Ofwat proposed allowances for water companies where they have not been able to provide assurance that certain capex programmes can be delivered. These are defined as delivery mechanism allowances and require companies to submit plans on an annual basis to Ofwat in order to request an uplift to RCV and revenue. Additionally, for certain projects (captured as large gated schemes), Ofwat has provided an allowance of 6% of the estimated cost to scope the proposed programmes, which will then be revisited to access additional funding when the companies are able to deliver the schemes. Ofwat has not included specific information around the funding of the large gated schemes, however IBP25 assumes they are treated in the same way as the delivery mechanism.
	Large gated schemes	
Revenue		<ul style="list-style-type: none"> Ofwat calculates the revenue allowance, effectively the amount TWUL can charge its customers, for an AMP based on a formula. The formula is principally based on: <ul style="list-style-type: none"> An allowed return (WACC) on the RCV; An amount of immediate recovery from customers reflecting efficient Total Opex; A recovery for RCV run off (depreciation and amortisation of the asset base); and Retail Opex with an allowed margin applied.
RCV		<ul style="list-style-type: none"> RCV – (regulatory capital value) - is the capital base used by Ofwat to assess how much TWUL can bill customers considering the return on capital invested. RCV is based on a calculation: <ul style="list-style-type: none"> Brought forward: RCV balance; Deduct: Run-off of RCV (similar to depreciation for the asset base), and any capital grants; and Add: Total allowed Capex (base and enhancement), plus CPI inflation on brought forward balance.
WACC		<ul style="list-style-type: none"> Ofwat sets the return that each company can apply to the RCV. The calculation is based on the WACC for a “hypothetical” water company that has a debt/equity ratio of 55/45 and is suitably investment grade. Ofwat assesses expected market return needs for the equity and debt components. Ofwat may apply a different WACC for an individual water company based on company specific considerations such as costs of debt.



Evaluation of Scenarios

Step 2: Consider TWUL's forecasts

TWUL has prepared a forecast based on its response to the Ofwat DD.

Step 2: Consider TWUL's forecasts

AMP8 Base Case

- TWUL submitted its DD response for AMP8 in Aug 24 which contains its expected regulatory spend and associated revenue and RCV allowances. This forms the basis of the forecast over AMP8.
- The assumptions are published in detail on the TWUL website - TMS-DD-039: Thames Water PR24 DD response – Outcomes.
- Subsequent to the DD response, TWUL prepared a five-year business plan IBP25, the “Base Case”. This plan is based upon the company DD response and recognises further unfunded and non-appointed costs (totalling c.£1bn) that have been included over and above costs within its DD response.
- The TWUL forecast model uses both regulatory metrics and statutory assumptions to build an annual three statement model.
- The key inputs for the Base Case forecast are:
 - Revenue and RCV allowances per the DD response submitted to Ofwat on 28 Aug 24, including the delivery mechanism and large gated scheme allowances;
 - Costs as per the DD response business plan;
 - Additional costs in respect of non-appointed costs and unfunded costs as per IBP25, where TWUL expects additional expenditure that will not be recovered through the Ofwat methodology; and
 - An assumption around ODIs, C-MeX & D-MeX penalties incurred in AMP8 of £0.4bn in line with the DD response submission.
- Shown opposite are the key inputs to the Base Case.

Notes:

1. Figures in the above table are quoted in real 22-23 pricing.
2. The forecast ODI penalty for AMP8 is £0.4bn however there is a two year lag between the penalties being incurred to when this impacts the revenue charged to customers- therefore while the penalties incurred in AMP8 are £0.4bn, the cash impact is shifted to FY28 to FY32 through the forecast.

		Base Case	
		Inputs	AMP8 Value (£bn 22-23 pricing) ¹
Spend:			
Core plan Totex	Base Opex	DD response	5.9
	Retail Opex	DD response	1.1
	Enhancement Opex	DD response	0.5
	Total Opex	DD response	7.5
	Base Capex	DD response	6.4
	Enhancement Capex	DD response	6.8
	Total Capex	DD response	13.2
Contingent Totex	Delivery mechanism	DD response	1.7
	Large gated schemes	DD response	1.3
Non appointed costs		IBP25	0.3
Unfunded costs		IBP25	0.7
Allowances:			
Revenue		DD response	18.3
RCV		DD response	Closing: 30.4
Other:			
ODI, C-MeX & D-MeX (impact through revenue)²		DD response	0.4

Source: TWUL DD response, TWUL IBP25, Crabtree model



Evaluation of Scenarios

Step 2: Consider TWUL's forecasts

Given the uncertainty around the FD outcome, a Sensitised Case has been prepared using the revenue and RCV allowances per the Ofwat DD but cost assumptions as per the Base Case.

This results in two cases that provide the bookends of the potential range of outcomes for the FD.

Step 2: Consider TWUL's forecasts

AMP8 Sensitised Case

- TWUL's response to the Ofwat DD requested significantly higher cost recovery, greater capex investment to be allowed for inclusion in the RCV, and a higher WACC than the Ofwat DD proposals.
- As a consequence, there is a material difference between the latest TWUL position and that of Ofwat as published in the DD, giving rise to considerable uncertainty as to the outcome that will arise for AMP8.
- This impacts the short-term cash requirements that TWUL may require during AMP8 – including scale of short-term equity needs.
- This also impacts the longer-term value of the business and consequently impacts the potential return that equity could expect to receive from an investment in the business.
- Ofwat's DD proposals accept the projects that TWUL has put forward but places a material cost reduction challenge on the business. TWUL's latest view on such costs is included in both the Base and Sensitised cases, however in the Sensitised case revenue allowances and RCV additions are set at the Ofwat DD level.
- Those cases are therefore considered to be bookends of the potential ranges of outcomes of the FD:
 - **The Base Case:** the "high" end whereby TWUL get the allowances within its DD response;
 - **The Sensitised Case:** the "low" end whereby the Ofwat position does not improve from the DD allowances, but TWUL continues to incur costs as per IBP25.

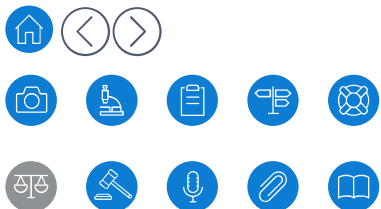
Notes:

1. Figures in the above table are quoted in real 22-23 pricing.
2. The forecasted ODI penalty for AMP8 is £0.4bn however there is a two year lag between the penalties being incurred to when this impacts the revenue charged to customers- therefore while the penalties incurred in AMP8 are £0.4bn, then cash impact is shifted to FY28 to FY32 through the forecast.

(£bn 22-23 pricing)¹

		Inputs	Sensitised Case	Base Case
Spend:				
Core plan Totex	Base Opex	DD response	5.9	5.9
	Retail Opex	DD response	1.1	1.1
	Enhancement Opex	DD response	0.5	0.5
	Total Opex	DD response	7.5	7.5
	Base Capex	DD response	6.4	6.4
	Enhancement Capex	DD response	6.8	6.8
	Total Capex	DD response	13.2	13.2
Contingent Totex	Delivery mechanism	DD response	1.7	1.7
	Large gated schemes	DD response	1.3	1.3
Non appointed costs		IBP25	0.3	0.3
Unfunded costs		IBP25	0.7	0.7
Allowances:				
Revenue		Ofwat DD	15.1	18.3
RCV		Ofwat DD	Closing: 23.7	Closing: 30.4
Other:				
ODI, C-MeX & D-MeX (impact through revenue)²		DD response	0.4	0.4

Source: Ofwat DD, TWUL IBP25, Crabtree model



Evaluation of Scenarios

Step 2: Consider TWUL's forecasts

TWUL has prepared a long-term forecast from AMP9 to AMP12, built up using regulatory cost assumptions.

Step 2: Consider TWUL's forecasts

Basis of preparation – AMP9 onwards

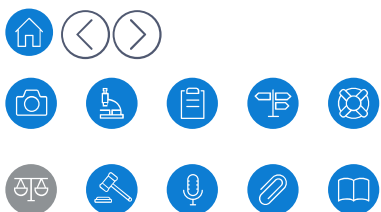
- TWUL has prepared a long-term forecast from AMP9 to AMP12. As per the AMP8 forecast this has been built up from regulatory spend and revenue and RCV allowances, into a statutory three statement model.
- This is not relevant for our calculation of the funding required to get to a transaction but do form the underlying forecast in the independent valuation. We have summarised the key assumptions here to provide background information only.
- The Base and Sensitised Forecasts assume that TWUL can operate in line with the regulatory model from the beginning of AMP9 where it can add Total Capex to RCV and claim Total Opex in year.

Regulatory cost assumptions:

- Base Totex and Retail Opex for AMP9 onwards have been forecast on a total AMP basis, applying assumptions to the AMP8 total. The forecast AMP totals have then been apportioned between Opex and Capex based on the AMP8 split per the DD response.
- The yearly amount is calculated based on either a smooth growth gradient per AMP or spread evenly over the AMP.
- Enhancement Totex is based on a revised view of the Long Term Delivery Strategy (“LTDS”) published in the DD response, based on TWUL’s latest view on deliverability and affordability.
- As per AMP8, costs are forecast at the same level in both the Base Case and Sensitised Case, further assumptions are below.

		Base Case and Sensitised Case		
Regulatory Cost Inputs:				
Core plan Totex	Retail Opex	Opening position	• AMP8 total retail spend	
		Assumption	• Kept flat in real terms.	
	Base Totex	Opening position	• AMP8 total Base Totex	
		Assumption	• £0.1bn expected frontier efficiency applied to each AMP	
Core plan Totex	Enhancement Totex	<ul style="list-style-type: none"> • For Enhancement Capex, the DD response contained a LTDS with Enhancement Totex to 2050 (source: tabs LS3 & LS4). This was a view of spend not constrained by affordability or deliverability. • TWUL has since reviewed this spend and determined based on current delivery constraints that a reasonable level of growth in its delivery capacity for Enhancement Capex to be c.3% per annum from FY30. • Enhancement Opex is assumed to grow in line with Enhancement Capex. 		
		Contingent Totex	Delivery mechanism	N/A (assume no contingent spend past AMP8).
			Large gated schemes	N/A (assume no contingent spend past AMP8).
Non appointed costs		AMP8 non appointed costs used as the basis and kept flat in real terms, associated revenue is kept as per AMP8 with nil margin.		

Source: IBP25 20-year Totex planning assumptions Final Draft



Evaluation of Scenarios

Step 2: Consider TWUL's forecasts

TWUL has then applied Ofwat methodology in order to calculate regulatory revenue and RCV.

Step 2: Consider TWUL's forecasts

Basis of preparation – AMP9 onwards

Other costs

- Assumptions around non regulatory costs are included below.

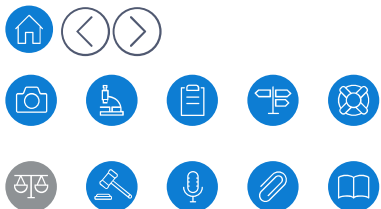
- For both cases, it is assumed that there is full recovery for total regulatory Capex in RCV allowances, and that revenue includes the total regulatory Opex.

Revenue & RCV allowances:

- The regulatory costs forecast form the basis for the revenue and RCV allowance calculations. Key assumptions used within the calculations are outlined below.

	Base Case	Sensitised Case
Non-regulatory Costs		
Unfunded costs	TWUL has assumed a level of unfunded cost in relation to penalties of £0.2bn (22-23 pricing) per AMP.	
ODIs	N/A (assumed no ODIs incurred after AMP8, as Company expected to be in line with efficient frontier).	
Regulatory allowances assumptions		
WACC (revenue)	<ul style="list-style-type: none"> AMP8 WACC (nominal) in the DD response is 6.7%. Assumptions have been kept in line with the AMP8 DD response (risk premium, debt margin etc) except the risk-free rate for cost of equity is driven off the average 15-year nominal gilt forward curve, to give an average of 6.7% (nominal). 	<ul style="list-style-type: none"> For the sensitised case WACC has been maintained at the AMP8 Ofwat WACC rate of 5.7% (nominal).
RCV run off (revenue and RCV)	The run-off rate used is kept in line with AMP8 DD response assumptions.	
RCV	<p>Opening position: FY30 Base Case RCV</p>	<ul style="list-style-type: none"> Opening position: FY30 Sensitised Case RCV. The cost sharing mechanism results in an opening position adjustment in order to reflect the portion of Capex overspend during AMP8 TWUL will be able to share with customers (40%).

Source: IBP25 20-year Totex planning assumptions Final Draft



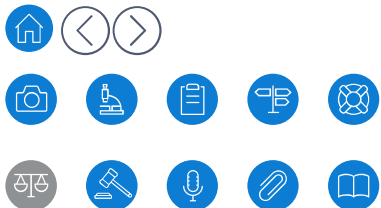
Evaluation of Scenarios

Step 3: Consider sensitivities to forecasts

TWUL recognises a number of financial risks and uncertainties arising from investigations, reviews and other known challenges.

The Group has identified two areas that could have a financial impact on TWUL before Jul 26.

These have been applied to the Base and Sensitised forecasts to reflect risks around regulatory fines.



Step 3: Consider sensitivities to forecasts

Regulatory sensitivities

- TWUL recognises a number of financial risks and uncertainties arising from investigations, reviews and other known challenges. TWUL set these risks out in its RNS announcement and Environmental Compliance and Regulatory Investigation presentation, both dated 25 Oct 24.
- Based on these and discussions with the Group, there are two areas that could impact TWUL's cash flow before Jul 26.

Regulatory fines

- The two identified items relate to announced or potential regulatory fines:
 - **Urban Wastewater Treatment Regulation ("UWWTR"):** On 6 Aug 24 Ofwat published details of its proposed findings of breach, proposed financial penalty (£105m) and draft enforcement order from its investigation into wastewater compliance for three companies, including TWUL.
 - Given this we have assumed a cash flow sensitivity of £105m, incurred in Apr 25:
 - Feb 25 to Sep 25: £105m (i.e. impacting Scenario 1)
 - Feb 25 to Jul 26: £105m (i.e. impacting Scenario 2)
 - **Oct 23 dividend:** In Oct 23, TWUL paid an interim dividend of £38m to TWUHL.
 - In May 24 TWUL received a draft "minded to" letter from Ofwat in respect of the dividend, which included a draft proposal to impose a penalty of £44m.
 - We have assumed a cash flow sensitivity of £44m incurred in Mar 25:
 - Feb 25 to Sep 25: £44m
 - Feb 25 to Jul 26: £44m

- The cumulative impact of the identified items is:
 - Feb 25 to Sep 25: £149m
 - Feb 25 to Jul 26: £149m

Period Post Transaction

- We have only included possible cash flow risks in the period to a transaction in our analysis.
- Most of the risks fall in the post transaction period (i.e. beyond Jul 26). These have been reflected in the independent expert valuation.

Evaluation of Scenarios

Step 4: Overlay specific SAR related costs

Overlays have been applied to the funding forecasts to reflect specific trading risks during a SAR, professional fees and HMG funding cost.

Step 4: Overlay specific SAR related costs

Overview

- As set out previously, in the event of a SAR, the SAs would be required to achieve the statutory objectives of the SAR, and therefore:
 - Maintain Totex spending;
 - Ensure the confidence of the supply chain and employees in the business;
 - Ensure continuity of services to customers;
 - Adhere to regulatory requirements; and
 - Ensure stability of the ongoing business.
- During this period there would be an increased level of perceived risk associated with TWUL as a counterparty.
- We have therefore applied overlays to TWUL's forecasts, to reflect our expectation that the cost of running the business will increase in a SAR, including:
 - Suppliers may demand better payment terms/pricing;
 - It may become more difficult to attract and retain employees; and
 - Bad debt levels may increase, as customers view the SAR as an opportunity/reason to withhold payments.

Overlays

- The following SAR overlays have been applied to TWUL's cash flow forecasts:

Key Assumptions - SAR Funding Forecast Overlays

SAR Overlay £'m	Assumption uplift	Feb SAR 18 mths	Post sale 24 mths
1) People Costs	20%	(132)	(45)
2) Bad Debt Provisions	2%	(90)	-
3) Materials	10%	(16)	(10)
4) Insurance	50%	(54)	(35)
5) Other Operating Costs	10%	(108)	(70)
6) Professional Fees	Budgeted	(98)	-
7) Capex	10%	(437)	(314)
8) Credit terms	50%	(202)	-
		(1,136)	(474)
9) HMG interest (base case)	9.5%	(250)	-
9) HMG interest (sensitised case)	9.5%	(275)	-

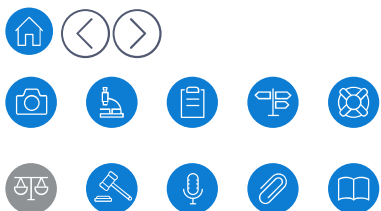
Source: TWUL IBP25 and Teneo analysis

Note: No overlays have been applied in respect of:

- Payroll arrears – as an appointment is assumed to occur at a month end; and
- Ransom payments – which are effectively built into the base forecasts.

SAR overlays: Post sale impact

- We have also considered the potential impact of the SAR overlays on the business post-transaction. This reflects the risk that following a purchase out of a SAR it may take a purchaser some time to return costs back to "normal".
- These post-transaction overlays total £474m and have not been incorporated within our Illustrative SAR funding forecasts, but have been included within the forecasts used to drive the independent valuation from Mr Weerasinghe of Kroll Advisory Ltd.
- The assumptions we have applied, and provided to Mr Weerasinghe are:
 - (1) People costs – 50% of the assumed uplift will persist for a 12-month period (c.£45m impact);
 - (3) Materials, (4) Insurance, (5) Other Operating costs and (7) Capex – the uplifted costs in the final month of the SAR will taper down to zero on a straight-line basis by month 24 post sale (total impact of c.£430m, of which c.£322m in the first 12 months post sale); and
 - (2) Bad debt provisions, (6) Professional fees, (8) Credit terms – no impact assumed post sale.



Evaluation of Scenarios

Step 5: Overlay specific Plan related costs and interest payable on existing debt

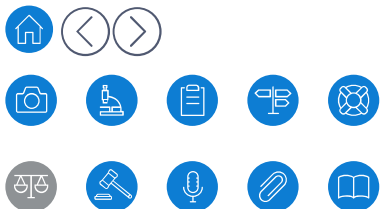
In the Plan, our analysis assumes the Super-Senior Facility is provided on the terms set out within the term sheet dated 25 Oct 24.

Step 5: Overlay specific RP related costs and interest received on existing debt

Funding proposal summary for new Super-Senior facility (Term sheet 25 Oct 24)

Input	Scenario 1 (Plan and Final RP)	
	Super-Senior Facility	Class A/B
Issue date	01 Feb 25	N/A
Maturity	2.5 years from issue date	Ongoing with two-year extension to facilities
Facility type	Bond and/or Loan	
Interest rate	9.75%	Various
Default interest	2.0%	Various
Backstop fee – Initial £1.5bn tranche only	3.5%	N/A
Bookbuild fee – subsequent £750m tranches only	1.0%	1.0%
Subscription price (Original Issue Discount – “OID”)	97.0% (3.0%)	N/A
Make-whole	<ul style="list-style-type: none"> Applies to remaining payments (discounted at a rate equal to the gilt rate) at point of: <ul style="list-style-type: none"> - Early redemption - Acceleration - Change of control 	TBC – nil assumed
Make-whole calculation	<ul style="list-style-type: none"> NPV of future payments by a comparable tenor gilt rate (4.5%), less principal. 	N/A
Voluntary redemption	Assumed on 01 Oct 25, i.e. fully refinanced with new debt.	All existing debt assumed to be refinanced into new debt on 01 Oct 25. Quantum refinanced dependent on transaction enterprise value.
Consent fee	N/A	0.75% for all early bird consenting Class A and Class B creditors, ranking immediately senior to Class A principal and Class B principal respectively. 0.5% for all other consenting Class A and B creditors.

Sources:
Teneo analysis, Project Crabtree –Term Sheet, Dated 25 October 2024



Evaluation of Scenarios

Step 5: Overlay specific Plan related costs and interest payable on existing debt

Our analysis assumes the Super-Senior Facility is provided on the terms set out within the term sheet dated 25 Oct 24.

All existing debt is forecast to receive cash interest paid between the Plan and the Final RP.

Various fees (consent, backstop) are also included in the Plan.

Step 5: Overlay specific RP related costs and interest received on existing debt

Funding costs

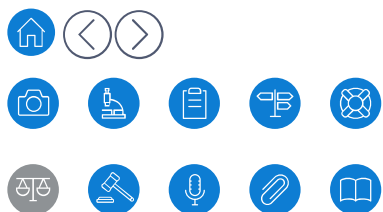
- Below shows the interim funding costs paid or incurred and accrued in the Plan Scenario.

Assumption	Scenario 1 (Plan and Final RP)	
	Base Case	Sensitised Case
Super-Senior issue date	01 Feb 25	01 Feb 25
SAR entry date	N/A	N/A
Sale date	30 Sep 25	30 Sep 25
Class A Debt - consent fee	(107)	(107)
Class A Debt - cash interest paid	(455)	(455)
Class A Debt - interest accrued	N/A	N/A
Class A Debt - Make-whole	N/A	N/A
Class B Debt - consent fee	(0.6)	(0.6)
Class B Debt - cash interest paid	(37)	(37)
Class B Debt - interest accrued	N/A	N/A
Class B Debt - Make-whole	N/A	N/A
Super-Senior debt net proceeds + additional draw-downs	(1,403) + (55) ⁽¹⁾	(1,403) + (295) ⁽¹⁾
Backstop fee + book building fees	(53) + (8) ⁽¹⁾	(53) + (8) ⁽¹⁾
Subscription price (Impact of OID)	(45) + (23) ⁽¹⁾	(45) + (23) ⁽¹⁾
Cash interest paid (Super-Senior to sale date)	(73)	(73)
Make-whole amount at 01 Oct 25	(210)	(210)
Interest rate and index hedges consent fees	(2.3)	(2.3)
Currency hedges consent fees	(0.9)	(0.9)

Sources:
Teneo analysis, Project Crabtree –Term Sheet, Dated 25 October 2024

Notes:
1: Amounts after '+' show the impacts of the additional draw-downs beyond the initial £1,500m Super-Senior facility. In practice Management could utilise some of the cash headroom of £200m

- The Make-whole estimate for the Super-Senior debt is based upon a trigger at 01 Oct 25.
- The consent fees are based on actual accessions received from the Plan information agent as at 09 Dec 24.
- Whilst certain fees of the Super-Senior facility may accrue before the Plan, none of these would be paid or become ranking claims in the WBS unless the Plan is successful (albeit Backstop fees would rank as provable claims).



Evaluation of Scenarios

Steps 1-5: Summary

Based on the outputs of Steps 1-5 of our work, we have assessed the funding requirement to deliver a transaction in both scenarios, being:

Scenario 1: £1,503m (base) £1,743m (sensitised); and

Scenario 2: £3,390m (base) - £4,118m (sensitised).

These figures have been applied to the forecast creditor waterfall analysis set out in Step 7 later in this section.

Steps 1-5: Funding requirement to get to a transaction

Scenario 1 (Plan and Final RP)

	£m	Base Case	Sensitised Case
Step 2	Base cash flows	(852)	(1,092)
Step 3	Sensitivities	(149)	(149)
	Cash interest paid	(429)	(429)
	Super-Senior interest paid	(73)	(73)
Step 5	Plan Costs	(502)	(502)
Plan	Funding requirement	1,503	1,743
	Opening cash balance	246	246
	Minimum required cash balance	200	200
	(Surplus)/shortfall to cash target	(46)	(46)
	Total cash requirement	1,457	1,697
	Super-Senior principal	1,500	1,500
	Less: OID	(45)	(45)
	Less: Backstop fee	(53)	(53)
	Net Super-Senior funding received	1,403	1,403
	Additional net draw-downs	55	295
	Total funding	1,457	1,697
	Net funding received	1,457	1,697
	OID (original funding)	45	45
	Backstop fee	53	53
	OID (additional draw-downs)	23	23
	Book building fee	8	8
	Make-whole amount	210	210
	Super-Senior debt balance	1,795	2,034

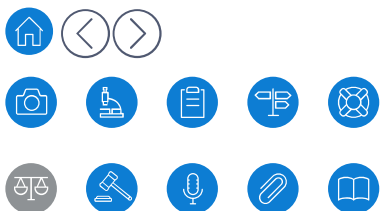
Scenario 2 (Relevant Alternative)

	£m	Base Case	Sensitised Case
Step 2	Base cash flows	(2,022)	(2,706)
Step 3	Sensitivities	(149)	(149)
	Less: Pension deficit payments	166	166
	SAR overlays	(1,136)	(1,136)
	HMG funding cost	(250)	(294)
Step 4	SAR costs	(1,219)	(1,263)
RA	HMG Funding	3,390	4,118
	Opening cash balance	246	246
	Minimum required cash balance	200	200
	(Surplus)/shortfall to cash target	(46)	(46)
	Total cash requirement	3,344	4,073

Source: Teneo analysis

Overview

- The outputs from steps 1-5 of our methodology have been used to calculate the Base and Sensitised Case funding requirement to deliver a transaction in both scenarios.
- Overall, this shows a forecast funding requirement of:
 - A** – Scenario 1 (Plan and Final RP): £1.5bn to £1.7bn; and
 - B** – Scenario 2 (Relevant Alternative): £3.4bn to £4.1bn.
- Both scenarios have been built using the same cash flows and regulatory sensitivities (albeit over a different time period), but a different approach has been applied in the following areas:
 - The application of SAR overlays (Scenario 2) and Super-Senior funding costs (Scenario 1), as set out previously; and
 - Pension deficit payments and hedge cash flows assumed to continue in Scenario 1, but not during a SAR, where DB pension schemes would enter into a PPF assessment period whilst the hedges are assumed to terminate.
- Furthermore, a number of additional items have been applied to calculate the overall Super-Senior debt balance. These have been shown below the forecast funding requirement to demonstrate the total liability of £1.8bn-£2.0bn, including:
 - OID on the original £1.5bn Super-Senior facility of 3%;
 - Backstop fee on the original fee of 3.5%;
 - OID on additional drawdown also assumed to be 3%, with additional drawdowns assumed to be made in tranches of £0.75bn;
 - Book build fee of 1% on the additional tranche of £0.75bn; and
 - Make-whole on full amount drawn (£2.25bn) calculated on future payments from the end of the Plan to the maturity date of the Super-Senior facility.
- We have assumed additional drawdown beyond the initial £1.5 billion facility in both base and sensitised cases for prudence. We note that in the Base Case the Super Senior funding requirement is in line with the initial £1.5bn facility together with some use of the £200m cash headroom.



Evaluation of Scenarios

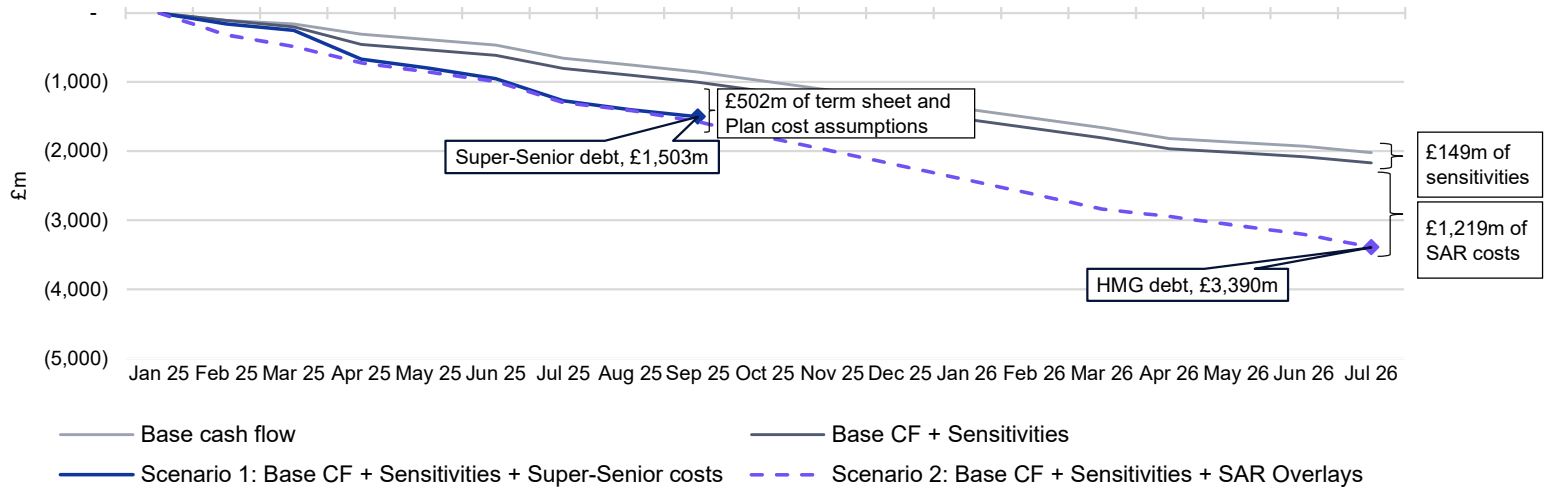
Steps 1-5: Summary

We used the monthly cash flows prepared under the Base Case and Sensitised Case (Step 2), applied sensitivities (Step 3) and then applied either the SAR costs (Step 4) or the Super-Senior debt costs (Step 5) in order to assess:

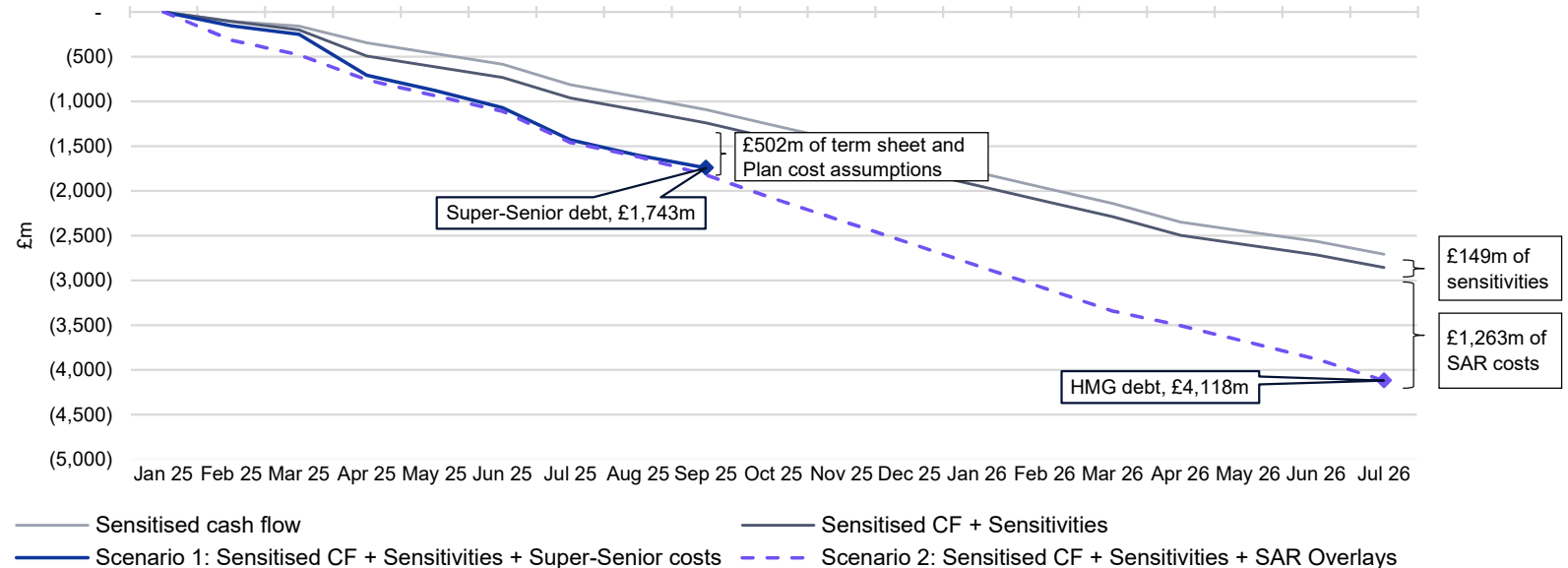
- 1) The Super-Senior funding requirement to get to a transaction at Sep 25 in the Plan (totals £1,503m-£1,743m); and
- 2) The HMG funding requirement to get to a SAR exit at Jul 26 (totals £3,390m - £4,118m).

Steps 1-5: Funding Requirement to get to a transaction

Base Case Cash Flows, £m



Sensitised Case Cash Flows, £m



Sources:
 Monthly liquidity forecast, Thames RNS, Lender Presentation, Teneo analysis



Evaluation of Scenarios

Step 6: Independent 3rd party valuation

Step 6: Independent 3rd party valuation

Independent Valuation

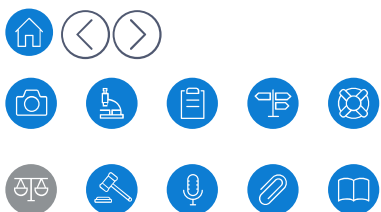
- TWUHL has appointed Mr Eraj Weerasinghe of Kroll Advisory Limited to undertake an independent expert valuation of TWUL. The independent expert valuation contains the following:
 - Current Enterprise Value (“EV”) of TWUL assuming a market participant gearing at the date of the Plan.
 - Indicative hypothetical EV of TWUL as of 30 Sep 25 assuming the Plan and Final RP are sanctioned (i.e. Scenario 1)
 - Indicative hypothetical EV of TWUL as of 31 Jul 26 assuming exit from a SAR (i.e. Scenario 2).
- The indicative hypothetical EV at each future date has been considered for both the Base Case and Sensitised Case forecasts.
- For the Base Case, the independent valuation expert has assumed that the market participant would consider the prevailing uncertainties and risks regarding the FD and execution risks of the Company’s business plan.
- For the Sensitised Case, the independent valuation expert has assumed that the market participant would *not* take into account any uncertainties or risks around the FD and execution risk as it would be in line with the DD, which has already been published by Ofwat in Jul 24.
- We note that the valuations do not include and hedging liabilities. We have therefore considered these separately in the creditor waterfall (see later).
- We have had access to the independent valuations prepared by Mr Weerasinghe. We have used the independent expert valuations to determine the estimated outcomes to creditors under the Plan and Final RP (Scenario 1) and SAR (Scenario 2).
- We set opposite the valuations used in our Estimated Outcome Statement analysis.

Kroll’s valuation range

£bn	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)
	Base Case		Sensitised Case	
Low	15.4	17.4	12.0	14.1
Mid-point	16.6	18.7	12.6	14.7
High	17.9	20.0	13.2	15.3

Source: Mr Weerasinghe’s independent expert valuation report dated 11 December 2024

- Kroll has provided a range of valuation outcomes for the base and sensitised scenarios, categorised as low, mid and high.
- We have applied the mid-point valuations to assess the impact on creditors in the Estimated Outcomes section of this Report.
- We have also run the analysis for the Low and High valuations and include a summary in Appendix 6.



Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

To assess the no worse off test, we have calculated the balances that would be due to creditors under the two scenarios.

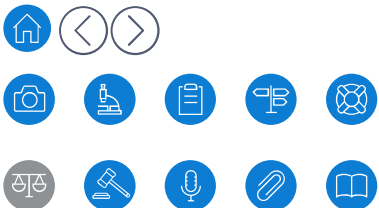
Step 7: Set out the waterfall of creditor claims at the transaction dates

Overview

- In order to assess the impact on affected creditors of the Plan versus the SAR scenario, we have prepared analysis which 'rolls forward' the creditor positions. This is based on Company information as at 31 Aug 24, rolled to the expected exit transaction dates under the two compared scenarios:
 - 30 Sep 25 for the Plan and Final RP; and
 - 31 Jul 26 for the SAR Relevant Alternative scenario.
- We have also considered the impact of potential decisions that certain creditors may make. In particular, it is recognised that a SAR would trigger a right of all lenders and hedge providers to accelerate/terminate, and we have assumed that all such hedge providers would exercise these rights on 01 Feb 25, in particular given the large potential exposure that the hedge providers would otherwise carry.
- We have assumed terms for the HMG facility that would be utilised in a SAR environment, based on a commercial pricing approach by HMG. HMG funding has been modelled using a margin of 9.5%, with one drawdown request per month. (See SAR section for detail of assumptions on HMG funding).
- We have assumed terms for the Super Senior facility are as per the Super Senior term sheet.
- We have reviewed the payment priority arrangements included in the WBS documents, and aligned with the Company's lawyers, Linklaters, on the expected payment priority that would apply under both assessed scenarios.

Process for calculating creditor claims

- In order to evaluate the "no worse-off" test for creditors under both the Plan scenario and Relevant Alternative, creditor claims have been estimated for each Class.
- Information on the outstanding debt balances was provided by TWUL as of 31 Aug 24. This is used as the opening position of debt balances which are rolled forward to each expected transaction date.
- This analysis has been conducted on an individual facility basis, covering 69 debt facilities, three RPI linked accretion/credit agreements and 254 hedging agreements.
- All creditor claims are calculated in local currency and converted to GBP as at the relevant transaction date based on FX forward rate on 29 Oct 24.
- In order to calculate the closing debt balances at the transaction date in each scenario we have taken into account :
 - **Terms in the underlying financing agreements** – detailed information on the calculations has been provided by Linklaters. The methodology used to estimate claims for each facility has also been reviewed by the Company and Linklaters for accuracy;
 - **Market data** – all market data has a reference date of end of day 29 Oct 24 for the roll forward calculations. This date was assessed as the closest reasonable data point for the Court analysis given expected volatility around UK budget and US election issues that may cause short term volatility in the period subsequent. This data includes forward curves for SONIA, UK Gilts, FX rates and RPI;
 - **Company data on the undiscounted cash flows of its hedging portfolio** – (interest rate, index and currency hedges) was also taken as of 29 Oct 24, including mark-to-market information as at the expected SAR appointment date based upon the forward curve available at 29 Oct 24;
 - **Super-Senior term sheet** – (Project Crabtree Term Sheet- 25 Oct 24) to calculate the Super-Senior creditor claim arising in Scenario 1; and
 - **HMG funding assumptions** – this has been used to calculate HMG's expense creditor claim arising in Scenario 2.










Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

The waterfall of creditor claims for the Plan and Final RP and Relevant Alternative as set out opposite. This is then used to determine the impact of each on the creditor Classes.

Classes of Creditors Key

-  Liquidity Facility Class
-  Interest Rate and Index Hedging Class
-  Currency Hedging Class
-  Class A Debt Non-Make-Whole Class
-  Class A Debt Make-Whole Class
-  Class B Debt Class
-  Subordinated Creditor Class




















New debt

















Step 7: Set out the waterfall of creditor claims at the transaction dates

- Below is a summary of the two waterfalls of creditor claims that apply to the Plan and Final RP and Relevant Alternative depending on whether the Plan is successful or not.

Plan creditor waterfall – successful Plan

1	• Costs, remuneration and expenses of Bond Trustee and Security Trustee.	
2	• Costs, remuneration and expenses of Agent Bank, Paying Agents, Account Bank, Liquidity Facility Providers, Facility Agents, Standstill Cash Manager, Authorised Credit Providers.	
3	• Liquidity Facilities – fees, interest and principal.	
4	• Interest rate and index hedges – scheduled amounts.	
5	• Super-Senior debt – interest, fees and commissions; Interest rate and index hedges – unscheduled and termination amounts and consent fee debt; and Currency hedges – scheduled amounts (not including principal or final exchange amounts).	N/A 
6	• Super-Senior debt – principal and Make-whole; and Currency hedges – unscheduled amounts, termination amounts and principal and final exchange amounts and consent fee debt.	N/A 
7	• Class A debt – interest, fees and commissions.	 
8	• Class A debt – consent fee debt.	 
9	• Class A debt – principal.	 
10	• Class A debt – Make-whole.	
11	• Class B debt – interest, fees and commissions.	
12	• Class B debt – consent fee debt.	
13	• Class B debt – principal.	
14	• Class B debt – Make-whole.	
15	• Any other amounts due to Class A Debt.	 
16	• Any other amounts due to Class B Debt.	
17	• TWL subordinated debt.	
18	• Equity.	

Relevant Alternative creditor waterfall – unsuccessful Plan

0	• HMG funding.	
1	• Costs, remuneration and expenses of Bond Trustee and Security Trustee.	
2	• Costs, remuneration and expenses of Agent Bank, Paying Agents, Account Bank, Liquidity Facility Providers, Facility Agents, Standstill Cash Manager, Authorised Credit Providers.	
3	• Liquidity Facilities – fees, interest and principal.	
4	• Interest rate and index hedges – scheduled amounts.	
5	• Class A debt – interest, fees and commissions; Interest rate and index hedges – unscheduled and termination amounts; and Currency hedges – scheduled amounts (not including principal or final exchange amounts).	 
6	• Class A debt – principal; and Currency hedges – unscheduled amounts, termination amounts and principal and final exchange amounts.	 
7	• Class A debt – Make-whole.	
8	• Class B debt – interest, fees and commissions.	
9	• Class B debt – principal.	
10	• Class B debt – Make-whole.	
11	• Any other amounts due to Class A Debt.	 
12	• Any other amounts due to Class B Debt.	
13	• TWL subordinated debt.	
14	• Equity.	

Source: Practice Statement Letter, Linklaters analysis, Teneo analysis

Note: Realisations for secured creditors in the RA waterfall would be diluted by a Prescribed Part of £0.6m in each entity
© 2024 | Teneo Financial Advisory Limited | Independent Expert Report | 11 December 2024

Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

Total estimated creditor claims at 30 Sep 25 under the Plan scenario are expected to be between £24.2bn and £24.5bn.

Total estimated creditor claims as at 31 Jul 26 under the SAR relevant alternative are expected to be between £30.1bn and £30.9bn, including HMG funding and additional interest accruals.

Step 7: Set out the waterfall of creditor claims at the transaction dates

Estimated creditor claims under each Scenario

- The table below summarises the total estimated creditor claims. This is split for the Plan and Final RP (Scenario 1) and the Relevant Alternative (Scenario 2), using the respective waterfall of creditor claims as outlined on the previous page.
- We describe the assumptions for each row on the following pages.

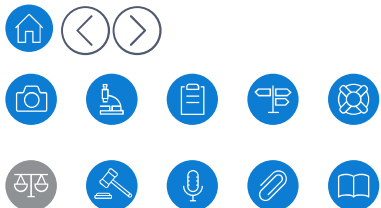
		Scenario 1	Scenario 2	Scenario 1	Scenario 2		
		Plan and Final RP	Feb 25 SAR	Plan and Final RP	Feb 25 SAR		
		01 Oct 25	31 Jul 26	01 Oct 25	31 Jul 26		
		Base Case		Sensitised Case			
£bn	Transaction date:	01 Oct 25	31 Jul 26	01 Oct 25	31 Jul 26		
S1	S2	Ref					
N/A	0	A	HMG funding	-	3.34	-	4.07
1	1	B	Costs, remuneration and expenses of Bond Trustee and Security Trustee	-	-	-	-
2	2	C	Costs, remuneration and expenses of Agent Bank, Paying Agents, Account Bank, Liquidity Facility Providers, Facility Agents, Standstill Cash Manager, Authorised Credit Providers.	-	-	-	-
3	3	D	Liquidity facilities	-	-	-	-
4	N/A	E	Interest rate and index hedges – scheduled payments	-	-	-	-
5	4	F	Interest rate and index hedges – termination payments	-	1.77	-	1.77
5	N/A	G	Super–Senior debt – interest, fees and commissions	0.02	-	0.03	-
6	N/A	H	Interest rate and index hedges – consent fee debt	0.00	-	0.00	-
6	N/A	I	Super–Senior debt – principal and Make–whole	1.79	-	2.03	-
5	N/A	J	Currency hedges – consent fee debt	0.00	-	0.00	-
7	5	K	Currency hedges – scheduled payments	-	-	-	-
8	N/A	L	Class A debt – interest, fees and commissions	0.24	1.55	0.24	1.55
9	N/A	M	Class A debt – consent fee debt	0.11	-	0.11	-
9	6	N	Class A debt – principal	15.88	16.07	15.88	16.07
10	6	O	Currency hedges – termination payments	-	0.12	-	0.12
10	7	P	Class A debt – Make-whole	-	0.74	-	0.74
11	8	Q	Class B debt – interest, fees and commissions	0.01	0.11	0.01	0.11
12	N/A	R	Class B debt – consent fee debt	0.00	-	0.00	-
13	9	S	Class B debt – principal	0.99	0.99	0.99	0.99
14	10	T	Class B debt – Make-whole	-	-	-	-
15	11	U	Any other amounts due to Class A debt	-	-	-	-
16	12	V	Any other amounts due to Class B debt	-	-	-	-
17	13	W	TWL subordinated debt	3.74	3.92	3.74	3.92
18	14	X	TWUL Intercompany loan	1.42	1.47	1.42	1.47
		Y	Backstop fee unsecured claim	-	0.05	-	0.05
Total			24.22	30.14	24.47	30.86	

CF Notes = Consent Fee Notes under terms of Plan

S1/S2 = Scenario 1/Scenario 2

Numbers in the first two columns relate to the respective creditor waterfall as outlined on the previous page.

Source: Teneo analysis



Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

We outline the basis upon which we have calculated claims for each creditor.

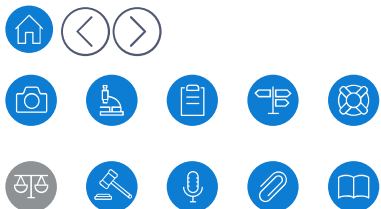
Step 7: Set out the waterfall of creditor claims at the transaction dates

Supporting notes to the estimated creditor claims – by each category in the creditor waterfall

- Creditor claims have been calculated on an individual facility basis per the terms outlined in the underlying facility documentation with data provided by the Company as of 31 Aug 24 and using market data as of 29 Oct 24. We set out the assumptions for each limb in the creditor waterfall below.

Note	Description	Scenario 1 (Plan and Final RP)	Scenario 2 (Feb 25 SAR)
A	HMG Funding	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> The HMG funding is modelled as an RCF-style facility, with a 9.50% interest rate. During the SAR period, service of existing debts would cease, but with interest continuing to accrue. The HMG funding covers operating cash flow shortfalls and SAR-specific costs as detailed in the previous pages.
B, C	<p>Costs, remuneration and expenses of Bond Trustee and Security Trustee</p> <p>Costs, remuneration and expenses of Agent Bank, Paying Agents, Account Bank, Liquidity Facility Providers, Facility Agents, Standstill Cash Manager, Authorised Credit Providers</p>	<ul style="list-style-type: none"> Expected to be de minimis. 	<ul style="list-style-type: none"> Expected to be de minimis.
D	Liquidity Facilities	<ul style="list-style-type: none"> Cancelled under the Plan. 	<ul style="list-style-type: none"> Expected to be undrawn.
E, K	<p>Interest rate and index hedges – scheduled payments</p> <p>Currency hedges - scheduled payments</p>	<ul style="list-style-type: none"> All hedging agreements are assumed to continue to be serviced in Scenario 1 and claims do not crystallise. Whilst these amounts don't appear in the waterfall, we have calculated an NPV of the future cash flows applying Mr Weerasinghe's WACC from his valuation report in our EOS analysis. 	<ul style="list-style-type: none"> N/A
F, O	<p>Interest rate and index hedges – termination payments</p> <p>Currency hedges - termination payments</p>	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Hedge liabilities crystallise on 01 Feb 25. The forecast MtM as at 01 Feb 25 is then rolled forward to 31 Jul 26 based on the accrual of default interest (calculated as 1% plus the daily compounded SONIA forward rate). The assets and liabilities are then aggregated based on the portfolio of trades for each hedge provider and company entity (TWUL or TWUF) in line with the ISDA netting arrangements.

Source: Company information; Linklaters advice; Teneo analysis



Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

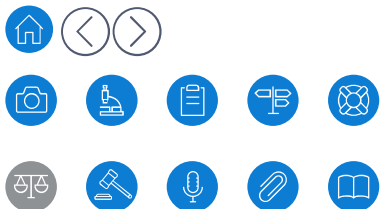
We outline the basis upon which we have calculated claims for each creditor.

Step 7: Set out the waterfall of creditor claims at the transaction dates

Supporting Notes to the estimated creditor claims – by each category in the creditor waterfall (cont'd)

- Creditor claims have been calculated on an individual facility basis per the terms outlined in the underlying facility documentation with data provided by the Company as of 31 Aug 24 and using market data as of 29 Oct 24. We set out the assumptions for each limb in the creditor waterfall below.

Note	Description	Scenario 1 (Plan and Final RP)	Scenario 2 (Feb 25 SAR)
G	Super-Senior accrued interest, fees	<ul style="list-style-type: none"> In line with the terms sheet detailed in note I below, there is two months' worth of interest, accrued at 9.75% p.a., at deal close. 	<ul style="list-style-type: none"> N/A
H, J, M, R	Interest rate and index hedges – consent fee debt Currency hedges – consent fee debt Class A debt – consent fee debt Class B debt – consent fee debt	<ul style="list-style-type: none"> Consent fee calculated based on actual accessions received from the Plan information agent. Total consent fee debt calculated as 0.75% of the early-bird accessions and 0.50% of the late accessions. 	<ul style="list-style-type: none"> N/A
I	Super-Senior debt – principal and Make-whole	<ul style="list-style-type: none"> The facility is modelled with initial draw-down of £1.5bn, with additional draw-downs on an RCF-style basis where there is a further shortfall during the Plan. Additional draw-downs are modelled where the projected cash balance would drop below a target level of £200m. Terms are in line with the Class A term sheet: <ul style="list-style-type: none"> 9.75% interest paid semi-annually; 3.50% backstop fee; 3.00% OID; 1.00% book building fee (applies to additional draw-downs and is capitalised to the principal); 0.75% early bird consent fee; and 0.50% late consent fee. 	<ul style="list-style-type: none"> Backstop fees that may have accrued during the RP process are deemed to rank as unsecured/provable claims in the event that the Plan is unsuccessful.



Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

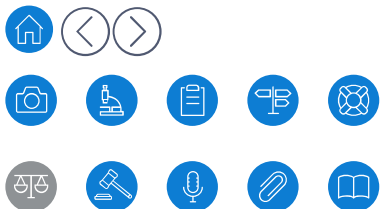
We outline the basis upon which we have calculated claims for each creditor.

Step 7: Set out the waterfall of creditor claims at the transaction dates

Supporting notes to the estimated creditor claims – by each category in the creditor waterfall (cont'd)

- Creditor claims have been calculated on an individual facility basis per the terms outlined in the underlying facility documentation with data provided by the Company as of 31 Aug 24 and using market data as of 29 Oct 24. We set out the assumptions for each limb in the creditor waterfall below.

Note	Description	Scenario 1 (Plan and Final RP)	Scenario 2 (Feb 25 SAR)
L	Class A debt – interest, fees and commissions	<ul style="list-style-type: none"> • We assume that all scheduled payments of Class A interest continue following the implementation of the Plan. • Therefore, the accrued interest balance as at 30 Sep 25 is calculated as the interest that accrues between the final interest payment before the final RP, and 30 Sep 25 only. 	<ul style="list-style-type: none"> • We have considered each of the five debt structures separately when calculating accrued interest and fees in a SAR. • We assume that all debt is accelerated on entry into a SAR and therefore becomes immediately due and payable as at 01 Feb 25. • During a SAR, no debt is serviced. Interest accrued at each payment date is capitalised and added to the interest balance to calculate future interest costs (thereby compounding interest). • Where applicable, default interest is charged on all overdue amounts. <p>(1) Fixed rate</p> <ul style="list-style-type: none"> • The periodic interest charge is calculated using a fixed rate of interest applied to the outstanding principal and interest accrual at a given date. <p>(2) Floating rate</p> <ul style="list-style-type: none"> • Floating rate instruments charge interest at a variable rate, typically tied to a benchmark rate, such as SONIA. • To calculate future interest charges for instruments benchmarked to SONIA, we use the Overnight Index Swap (OIS) forward curve, compounded daily between interest payment dates. • We have assumed that interest is accrued monthly for the RCFs and certain loans where interest periods are at the lenders' discretion. • We have calculated utilisation fees in respect of Class A RCFs. Periodic utilisation fees are calculated on the drawn element of the RCFs plus accrued interest. <p>(3) RPI-linked</p> <ul style="list-style-type: none"> • Interest for RPI-linked instruments is calculated based on the accreted principal at each payment date. At each payment date, both the principal and interest accrued is indexed, and interest calculated on the closing periodic principal and accrued interest. <p>(4) Amortising</p> <ul style="list-style-type: none"> • Interest for amortising loans is calculated based on the outstanding loan balance at each payment date with no amortisation payments made over the SAR period. <p>(5) RPI-linked accretion agreements</p> <ul style="list-style-type: none"> • Interest is calculated on the early termination amount which becomes due and payable as at 01 Feb 25. We calculate interest on the early termination amount in line with the applicable loan document.



Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

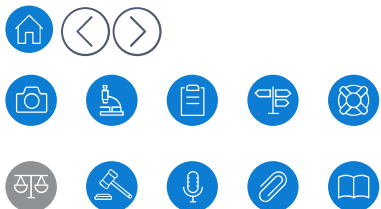
We outline the basis upon which we have calculated claims for each creditor.

Step 7: Set out the waterfall of creditor claims at the transaction dates

Supporting notes to the estimated creditor claims – by each category in the creditor waterfall (cont'd)

- Creditor claims have been calculated on an individual facility basis per the terms outlined in the underlying facility documentation with data provided by the Company as of 31 Aug 24 and using market data as of 29 Oct 24. We set out the assumptions for each limb in the creditor waterfall below.

Note	Description	Scenario 1 (Plan and Final RP)	Scenario 2 (Feb 25 SAR)
N	Class A debt – principal	<ul style="list-style-type: none"> • We assume that following implementation of the Plan on 01 Feb 25, all scheduled Class A debt maturities and amortisation payments are extended by two calendar years. • Class A principal for RPI-linked instruments is accreted up to 30 Sep 25. • For RPI-linked accretion agreements, the early termination amount is calculated as at 30 Sep 25, in accordance with the applicable loan documentation. This calculation determines the total liability under these agreements as of that date. 	<ul style="list-style-type: none"> • As with Class A interest and fees, Class A principal claims are considered under the five types of debt structure. (1) Fixed rate <ul style="list-style-type: none"> • This debt includes a mixture of bonds and loans. During a SAR, the principal balance outstanding does not change. (2) Floating rate <ul style="list-style-type: none"> • Floating rate debt includes loans and RCFs. During a SAR, the principal balance outstanding does not change. (3) RPI-linked <ul style="list-style-type: none"> • This debt includes a mix of bonds and loans. • The outstanding principal balance is linked to inflation. The principal is adjusted over time through an indexation mechanism, which adjusts the outstanding balance with reference to the prevailing Retail Price Index ("RPI"). We have used market forecasts of future RPI (as of 29 Oct 24) to calculate the accreted principal balance at various future dates. (4) Amortising <ul style="list-style-type: none"> • There are three amortising loans. We assume that following a SAR, amortisation payments are suspended. • Each of these instruments is RPI-linked. Therefore, we follow the same approach as described for RPI-linked instruments when estimating the future principal balance. (5) RPI-linked accretion agreements <ul style="list-style-type: none"> • Entry into a SAR is considered to result in an early termination amount becoming due and payable. • We calculate the early termination amount in line with the applicable loan documentation.



Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

We outline the basis upon which we have calculated claims for each creditor.

Step 7: Set out the waterfall of creditor claims at the transaction dates

Supporting notes to the estimated creditor claims – by each category in the creditor waterfall

- Creditor claims have been calculated on an individual facility basis per the terms outlined in the underlying facility documentation with data provided by the Company as of 31 Aug 24 and using market data as of 29 Oct 24. We set out the assumptions for each limb in the creditor waterfall below.

Note	Description	Scenario 1 (Plan and Final RP)	Scenario 2 (Feb 25 SAR)
P	Class A debt – Make-whole	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Class A Make-whole amounts are calculated in line with the definitions within the applicable loan documents. Where applicable, market data is as at 29 Oct 24. <p>Class A Bonds</p> <ul style="list-style-type: none"> For Class A Bonds, Make-whole amounts are calculated by discounting the future cash flows by the current yield of a reference instrument specified in the Bond's final terms. If the NPV of these future cash flows exceeds the outstanding principal balance, the difference is classified as a Make-whole amount. <p>US Private Placement (“USPP”) Notes</p> <ul style="list-style-type: none"> Make-whole amounts for USPP notes are calculated by discounting future cash flows using a reference instrument. For these notes, the cash flows are discounted using yields on either US T-Bills or UK Gilts with a maturity matching the remaining average life of the USPP note. If there is no T-Bill or Gilt with a maturity exactly matching the note's remaining life, we interpolate between the yields closest to the note's remaining average life. <p>Bespoke MtM calculations</p> <ul style="list-style-type: none"> Certain instruments require a MtM calculation for reference hedges to determine the Make-whole amount. We use Bloomberg's Swap Manager function to calculate these amounts in alignment with each specific loan instrument.
Q	Class B debt – interest, fees and commissions	<ul style="list-style-type: none"> We assume that all scheduled payments of Class B interest continue following the implementation of the Plan. Therefore, the accrued interest balance as at 30 Sep 25 is calculated as the interest that accrues between the final interest payment before the final RP, and 30 Sep 25 only. 	<ul style="list-style-type: none"> Please refer to Note L where we have detailed the methodology involved in calculating the Class A accrued interest and fees; we have used the same methodology when calculating the Class B accrued interest and fees.



Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

We outline the basis upon which we have calculated claims for each creditor.

Step 7: Set out the waterfall of creditor claims at the transaction dates

Supporting notes to the estimated creditor claims – by each category in the creditor waterfall

- Creditor claims have been calculated on an individual facility basis per the terms outlined in the underlying facility documentation with data provided by the Company as of 31 Aug 24 and using market data as of 29 Oct 24. We set out the assumptions for each limb in the creditor waterfall below.

Note	Description	Scenario 1 (Plan and Final RP)	Scenario 2 (Feb 25 SAR)
S	Class B debt – principal	<ul style="list-style-type: none"> • We assume that following implementation of the Plan on 01 Feb 25, all scheduled Class B debt maturities and amortisation payments are extended by two calendar years. • Class B principal for RPI-Linked instruments is accreted up to the 30 Sep 25. 	<ul style="list-style-type: none"> • Class B debt is comprised of one bond (fixed rate only) and nine loans (six floating rate instruments, three fixed rate). • Please refer to Note N where we have detailed the methodology involved in calculating the Class A principal; we have used the same methodology when calculating the Class B principal.
T	Class B debt – Make-whole	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • Class B Make-whole amounts are calculated in line with the definitions within the applicable loan documents. Where applicable, market data is as at 29 Oct 24. • There is only one Class B instrument (GBP Bond) with a Make-whole clause. • Please refer to Note N, Class A Bonds where we detail the methodology used to calculate Make-whole on Bonds. This same methodology is applied here.
U, V	Any other amounts due to Class A debt Any other amounts due to Class B debt	<ul style="list-style-type: none"> • Expected to be de minimis. 	<ul style="list-style-type: none"> • Expected to be de minimis.
W, X	TWL subordinated debt TWUL intercompany loan	<ul style="list-style-type: none"> • We have calculated the carrying amount of the loans in line with the principal plus additional accrued interest during Plan. • The TWUL intercompany loan is unsecured, whilst the TWL intercompany loan ranks as a subordinated debt. 	<ul style="list-style-type: none"> • We have calculated the carrying amount of the loans in line with the principal plus additional accrued interest during SAR. • The TWUL intercompany loan is unsecured, whilst the TWL intercompany loan ranks as a subordinated debt.
Y	Backstop fee unsecured claims	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • Similarly, the backstop fee payable to the Super-Senior lenders of £53m would rank as an unsecured creditor.










Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

We then apply the waterfall to the creditor classes, to derive the outstanding claims at each transaction date.

Classes of Creditors Key

-  Liquidity Facility Class
-  Interest Rate and Index Hedging Class
-  Currency Hedging Class
-  Class A Debt Non-Make-Whole Class
-  Class A Debt Make-Whole Class
-  Class B Debt Class
-  Subordinated Creditor Class



Step 7: Set out the waterfall of creditor claims at the transaction dates

Waterfall of creditor claims

£bn	Ref	Scenario 1	Scenario 2	Scenario 1	Scenario 2	
		Plan and Final RP	Relevant Alternative (SAR)	Plan and Final RP	Relevant Alternative (SAR)	
		Base Case		Sensitised Case		
	A	HMG funding	-	3.34	-	4.07
	B	Costs, remuneration and expenses of Bond Trustee and Security Trustee	-	-	-	-
	C	Costs, remuneration and expenses of Agent Bank, Paying Agents, Account Bank, Liquidity Facility Providers, Facility Agents, Standstill Cash Manager, Authorised Credit Providers.	-	-	-	-
	D	Liquidity facilities	-	-	-	-
	E	Interest rate and index hedges – scheduled payments	-	-	-	-
	F	Interest rate and index hedges – termination payments	-	1.77	-	1.77
	G	Super-Senior debt – interest, fees and commissions	0.02	-	0.03	-
	H	Interest rate and index hedges – consent fee debt	0.00	-	0.00	-
	I	Super-Senior debt – principal and Make-whole	1.79	-	2.03	-
	J	Currency hedges – consent fee debt	0.00	-	0.00	-
	K	Currency hedges – scheduled payments	-	-	-	-
	L	Class A debt – interest, fees and commissions	0.24	1.55	0.24	1.55
	M	Class A debt – consent fee debt	0.11	-	0.11	-
	N	Class A debt – principal	15.88	16.07	15.88	16.07
	O	Currency hedges – termination payments	-	0.12	-	0.12
	P	Class A debt – Make-whole	-	0.74	-	0.74
	Q	Class B debt – interest, fees and commissions	0.01	0.11	0.01	0.11
	R	Class B debt – consent fee debt	0.00	-	0.00	-
	S	Class B debt – principal	0.99	0.99	0.99	0.99
	T	Class B debt – Make-whole	-	-	-	-
	U	Any other amounts due to Class A debt	-	-	-	-
	V	Any other amounts due to Class B debt	-	-	-	-
	W	TWL subordinated debt	3.74	3.92	3.74	3.92
	X	TWUL Intercompany loan	1.42	1.47	1.42	1.47
	Y	Backstop fee unsecured claim	-	0.05	-	0.05
	Total		24.22	30.14	24.47	30.86

Source: Teneo analysis

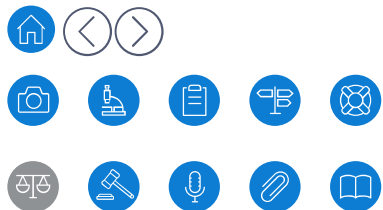
Evaluation of Scenarios

Step 7: Set out the waterfall of creditor claims at the transaction dates

We then apply the waterfall to the creditor classes, to derive the outstanding claims at each transaction date.

Classes of Creditors Key

- Liquidity Facility Class
- Interest Rate and Index Hedging Class
- Currency Hedging Class
- Class A Debt Non-Make-Whole Class
- Class A Debt Make-Whole Class
- Class B Debt Class
- Subordinated Creditor Class



Step 7: Set out the waterfall of creditor claims at the transaction dates

Plan creditor classes

£bn	Scenario 1		Scenario 2	
	Plan and Final	Relevant	Plan and Final	Relevant
	RP	Alternative (SAR)	RP	Alternative (SAR)
	Base Case		Sensitised Case	
● Liquidity Facilities	-	-	-	-
HMG funding	-	3.34	-	4.07
● Interest Rate and Index hedging	0.00	1.77	0.00	1.77
Super-Senior funding	1.82	-	2.06	-
● Currency Hedging	0.00	0.12	0.00	0.12
● Class A Debt Non-Make-Whole	7.44	7.99	7.44	7.99
● Class A Debt Make-Whole	8.78	10.37	8.78	10.37
● Class B	1.01	1.10	1.01	1.10
● Subordinated debt	3.74	3.92	3.74	3.92
TWUL Intercompany loan	1.42	1.47	1.42	1.47
Unsecured claims	-	0.05	-	0.05
Total	24.22	30.14	24.47	30.86

Source: Teneo analysis

- The table above summarises the waterfall on the previous page into Plan creditor classes.
- Note that the Class A debt is split into two Classes for the purpose of the Plan:
 - Class A Debt Make-Whole, which incorporates the principal, Make-whole, accrued interest and consent fees for those Class A facilities with a Make-whole provision included in the loan agreements; and
 - Class A Debt Non-Make-Whole, which includes the principal, accrued interest and consent fees for those Class A facilities without a Make-whole provision included in the loan agreements.



Estimated outcomes

Estimated returns to creditors	90
Returns by class	95
Non-impacted creditors	104



Estimated outcomes

Estimated returns to creditors

No class of creditors as identified by the Company for the Plan is identified as worse off under the Plan compared to the assessed Relevant Alternative.

The “no worse-off” test passes for each Plan creditor class.

Illustrative waterfall applied to valuation outcomes

- The outputs from Steps 6 (independent third-party valuation) and 7 (waterfall of creditor claims) have been combined to produce an estimated outcome for each creditor class as defined in the Plan for both Scenario 1 (Plan and Final RP) and Scenario 2 (Relevant Alternative).
- The table below shows the recoveries per Class for their relevant claim at the transaction dates.
- In summary the “no-worse off” test is considered to be passed for each Creditor Class.***

	Base Case		Sensitised Case	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
1) Liquidity Facility	N/A	N/A	N/A	N/A
2) Interest Rate and Index Hedges	100.0 p/£	100.0 p/£	100.0 p/£	100.0 p/£
3) Currency Hedges	100.0 p/£	74.4 p/£	100.0 p/£	45.3 p/£
4) Class A Debt Make-Whole	84.0 p/£	71.5 p/£	58.5 p/£	47.3 p/£
5) Class A Debt Non-Make-Whole	83.7 p/£	76.1 p/£	57.7 p/£	49.1 p/£
6) Class B Debt	3.5 p/£	0.0 p/£	3.5 p/£	0.0 p/£
7) Subordinated Creditor	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£

Source: Teneo analysis

Analysis on following pages

- The table overleaf sets out how the illustrative transaction proceeds (from Step 6) are distributed across each of the Creditor Classes and shows the other items that impact value to creditors (such as interest earned and consent fees in the Plan).
- We then describe the outcome for each Creditor Class in more detail.










Estimated outcomes

Estimated returns to creditors

























The table opposite provides the total recovery for each limb of the waterfall of creditor claims for Scenario 1 and Scenario 2.

Classes of Creditors Key

-  Liquidity Facility Class
-  Interest Rate and Index Hedging Class
-  Currency Hedging Class
-  Class A Debt Non-Make-Whole Class
-  Class A Debt Make-Whole Class
-  Class B Debt Class
-  Subordinated Creditor Class



Illustrative waterfall applied to valuation outcomes

			Scenario 1	Scenario 2	Scenario 1	Scenario 2	
			Plan and Final RP	Relevant Alternative (SAR)	Plan and Final RP	Relevant Alternative (SAR)	
			Transaction date: 01 Oct 25 31 Jul 26		01 Oct 25 31 Jul 26		
			Base Case		Sensitised Case		
Illustrative transaction proceeds			16.64	18.70	12.59	14.72	
Interest rate and index hedges - scheduled payments			1.20	-	1.20	-	
Currency hedges - scheduled payments			0.09	-	0.09	-	
Illustrative distribution proceeds			15.35	18.70	11.30	14.72	
Interim proceeds received			0.57	-	0.57	-	
Total proceeds			15.91	18.70	11.87	14.72	
S1	S2	Ref					
N/A	0	A	HMG funding	-	3.34	-	4.07
1	1	B	Costs, remuneration and expenses of Bond Trustee and Security Trustee	-	-	-	-
2	2	C	Costs, remuneration and expenses of Agent Bank, Paying Agents, Account Bank, Liquidity Facility Providers, Facility Agents, Standstill Cash Manager, Authorised Credit Providers.	-	-	-	-
3	3	D	Liquidity facilities - fees, interest and principal		-	-	-
4	N/A	E	Interest rate and index hedges – scheduled payments		-	-	-
5	4	F	Interest rate and index hedges – termination payments		-	1.77	1.77
5	N/A	G	Super-Senior debt – interest, fees and commissions		0.10	-	0.10
5	N/A	H	Interest rate and index hedges – consent fee debt		0.00	-	0.00
6	N/A	I	Super-Senior debt – principal and Make-whole		1.79	-	2.03
5	N/A	J	Currency hedges – consent fee debt		0.00	-	0.00
5	5	K	Currency hedges – scheduled payments		-	-	-
7	5	L	Class A debt – interest, fees and commissions	 	0.70	1.55	0.70
8	N/A	M	Class A debt – consent fee debt	 	0.11	-	0.11
9	6	N	Class A debt – principal	 	13.18	11.95	8.89
6	6	O	Currency hedges – termination payments		-	0.09	-
10	7	P	Class A debt – Make-whole		-	-	-
11	8	Q	Class B debt – interest, fees and commissions		0.04	-	0.04
12	N/A	R	Class B debt – consent fee debt		-	-	-
13	9	S	Class B debt – principal		-	-	-
14	10	T	Class B debt – Make-whole		-	-	-
15	11	U	Any other amounts due to Class A debt	 	-	-	-
16	12	V	Any other amounts due to Class B debt		-	-	-
17	13	W	TWL subordinated debt		-	-	-
18	14	X	TWUL Intercompany loan		-	-	-
		Y	Backstop fee unsecured claim		-	-	-
Total			15.91	18.70	11.87	14.72	








Source: Teneo analysis

Estimated outcomes

Estimated returns to creditors

The table opposite provides the p/£ recovery for each limb of the waterfall of creditor claims for Scenario 1 and Scenario 2.

Classes of Creditors Key

-  Liquidity Facility Class
-  Interest Rate and Index Hedging Class
-  Currency Hedging Class
-  Class A Debt Non-Make-Whole Class
-  Class A Debt Make-Whole Class
-  Class B Debt Class
-  Subordinated Creditor Class



Illustrative waterfall applied to valuation outcomes

			Scenario 1	Scenario 2	Scenario 1	Scenario 2
			Plan and Final RP	Relevant Alternative (SAR)	Plan and Final RP	Relevant Alternative (SAR)
			01 Oct 25	31 Jul 26	01 Oct 25	31 Jul 26
			Base Case		Sensitised Case	
		Illustrative transaction proceeds	16.64	18.70	12.59	14.72
		Interest rate and index hedges - scheduled payments	1.20	-	1.20	-
		Currency hedges - scheduled payments	0.09	-	0.09	-
		Illustrative distribution proceeds	15.35	18.70	11.30	14.72
		Interim proceeds received	0.57	-	0.57	-
		Total proceeds	15.91	18.70	11.87	14.72
S1	S2	Ref				
N/A	0	A	N/A	100.0 p/£	N/A	100.0 p/£
1	1	B	N/A	N/A	N/A	N/A
2	2	C	N/A	N/A	N/A	N/A
3	3	D	N/A	N/A	N/A	N/A
4	N/A	E	N/A	N/A	N/A	N/A
5	4	F	N/A	100.0 p/£	N/A	100.0 p/£
5	N/A	G	100.0 p/£	N/A	100.0 p/£	N/A
6	N/A	H	100.0 p/£	N/A	100.0 p/£	N/A
6	N/A	I	100.0 p/£	N/A	100.0 p/£	N/A
5	5	J	100.0 p/£	N/A	100.0 p/£	N/A
7	5	K	N/A	N/A	N/A	N/A
8	N/A	L	100.0 p/£	100.0 p/£	100.0 p/£	100.0 p/£
9	6	M	100.0 p/£	N/A	100.0 p/£	N/A
6	6	N	83.0 p/£	74.4 p/£	56.0 p/£	45.3 p/£
10	7	O	N/A	74.4 p/£	N/A	45.3 p/£
11	8	P	N/A	0.0 p/£	N/A	0.0 p/£
12	N/A	Q	71.1 p/£	0.0 p/£	71.1 p/£	0.0 p/£
13	9	R	0.0 p/£	N/A	0.0 p/£	N/A
14	10	S	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£
15	11	T	N/A	N/A	N/A	N/A
16	12	U	N/A	N/A	N/A	N/A
17	13	V	N/A	N/A	N/A	N/A
18	14	W	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£
		X	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£
		Y	N/A	0.0 p/£	N/A	0.0 p/£

Source: Teneo analysis

Estimated outcomes

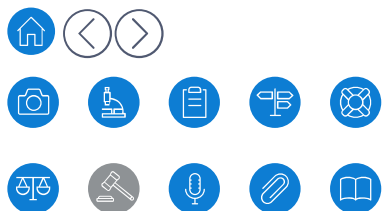
Estimated returns to creditors

This analysis shows p/£ of a creditor classes relevant claim at each transaction date. It takes into account both the transaction proceeds and other items that impact value for each creditor class.

We describe the outcome for each creditor class in more detail on the following pages.

Classes of Creditors Key

- Liquidity Facility Class
- Interest Rate and Index Hedging Class
- Currency Hedging Class
- Class A Debt Non-Make-Whole Class
- Class A Debt Make-Whole Class
- Class B Debt Class
- Subordinated Creditor Class



Illustrative waterfall applied to valuation outcomes

£bn	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)
Mr Weerasinghe's Valuation (mid-point)						
	Base Case		Sensitised Case		Amounts at deal close	
Illustrative transaction proceeds⁽²⁾	16.64	18.70	12.59	14.72		
Interest Rate and Index Hedges	1.20	-	1.20	-		
Currency Hedges	0.09	-	0.09	-		
Illustrative distribution proceeds	15.35	18.70	11.30	14.72		
Interim proceeds received ⁽³⁾	0.57	-	0.57	-		
Total proceeds	15.91	18.70	11.87	14.72		
<i>Distributions:</i>						
● Liquidity Facilities	N/A	N/A	N/A	N/A	N/A	N/A
HMG funding	N/A	100.0 p/£	N/A	100.0 p/£	N/A	3.34/4.07 ⁽¹⁾
● Interest Rate and Index Hedges	100.0 p/£	100.0 p/£	100.0 p/£	100.0 p/£	0.00	1.77
Super-Senior funding	100.0 p/£	N/A	100.0 p/£	N/A	1.89/2.14 ⁽¹⁾	N/A
● Currency Hedges	100.0 p/£	74.4 p/£	100.0 p/£	45.3 p/£	0.00	0.12
● Class A Debt Make-Whole	84.0 p/£	71.5 p/£	58.5 p/£	47.3 p/£	9.08	10.37
● Class A Debt Non-Make-Whole	83.7 p/£	76.1 p/£	57.7 p/£	49.1 p/£	7.60	7.99
● Class B Debt	3.5 p/£	0.0 p/£	3.5 p/£	0.0 p/£	1.05	1.10
● Subordinated debt	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£	3.74	3.92
TWUL Intercompany loan	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£	1.42	1.47
Unsecured claims	N/A	0.0 p/£	N/A	0.0 p/£	N/A	0.05
<i>Residual equity</i>	-	-	-	-	N/A	N/A
Total					24.79/25.03	30.14/30.86

Notes:

1: Base Case/Sensitised Case

2: As per Mr Weerasinghe's independent valuation work (Step 6)

3: Interest received by Class A and B Creditors and Super-Senior lenders

Source: Teneo analysis

Creditor Class impact

- There is no distribution to the Liquidity Facilities as these are either cancelled or undrawn.
- The Super-Senior funding and HMG funding are forecast to achieve a full recovery in Scenario 1 and Scenario 2, respectively.
- The interest rate and index hedges are forecast to achieve a full recovery in both scenarios.
- Given their elevation in the waterfall under the Plan, the Currency hedges are forecast a full recovery in Scenario 1. However, in Scenario 2, they are projected to only achieve a partial recovery as they would rank alongside Class A.
- The value break falls in the Class A principal claims, meaning a partial recovery for the two Class A classes (4 & 5) in both scenarios.
- The only recovery to Class B occurs in Scenario 1 and is solely attributable to the cash interest and fees received as part of the Plan.
- No value from any source is forecast for the TWL subordinated debt.

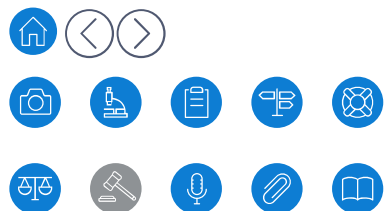
Estimated outcomes

Estimated returns to creditors

The table summarises how the transaction proceeds would be distributed to each Class of creditor.

Classes of Creditors Key

- Liquidity Facility Class
- Interest Rate and Index Hedging Class
- Currency Hedging Class
- Class A Debt Non-Make-Whole Class
- Class A Debt Make-Whole Class
- Class B Debt Class
- Subordinated Creditor Class



Illustrative waterfall applied to valuation outcomes

£bn	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)
Mr Weerasinghe's Valuation (mid-point)						
	Base Case		Sensitised Case		Amounts at deal close	
Illustrative transaction proceeds⁽²⁾	16.64	18.70	12.59	14.72		
Interest Rate and Index Hedges	1.20	-	1.20	-		
Currency Hedges	0.09	-	0.09	-		
Illustrative distribution proceeds	15.35	18.70	11.30	14.72		
Interim proceeds received ⁽³⁾	0.57	-	0.57	-		
Total proceeds	15.91	18.70	11.87	14.72		
<i>Distributions:</i>						
● Liquidity Facilities	-	-	-	-	-	-
HMG funding	-	3.34	-	4.07	-/-	3.34/4.07 ⁽¹⁾
● Interest Rate and Index Hedges	0.00	1.77	0.00	1.77	0.00	1.77
Super-Senior funding	1.89	-	2.14	-	1.89/2.14 ⁽¹⁾	-/-
● Currency Hedges	0.00	0.09	0.00	0.05	0.00	0.12
● Class A Debt Make-Whole	7.62	7.41	5.31	4.90	9.08	10.37
● Class A Debt Non-Make-Whole	6.36	6.09	4.38	3.93	7.60	7.99
● Class B Debt	0.04	-	0.04	-	1.05	1.10
● Subordinated debt	-	-	-	-	3.74	3.92
TWUL Intercompany loan	-	-	-	-	1.42	1.47
Unsecured claims	-	-	-	-	-	0.05
<i>Residual equity</i>	-	-	-	-	N/A	N/A
Total	15.91	18.70	11.87	14.72	24.79/25.03	30.14/30.86

Notes:

1: Base Case/Sensitised Case

2: As per Mr Weerasinghe's independent valuation work (Step 6)

3: Interest received by Class A and B Creditors and Super-Senior lenders

Source: Teneo analysis

Note on hedging analysis

- The Independent Expert valuation excludes any of the actual debt/hedging structures held by TWUL, being based upon an idealised debt/equity split.
- In Scenario 1, the total recovery to the interest rate and index and currency hedge providers is based on two elements: (i) the net present value of the future hedge cashflows at the transaction date, discounted at the rate applied by the Independent Expert to prepare the enterprise value, which is then deducted from the illustrative transaction proceeds (this

represents the ongoing contractual obligations of the hedges which we assume continue to be met, £1.20bn and £0.09bn respectively), and (ii) the consent fee recovery shown within the waterfall (shown as £0.00bn in both instances due to rounding).

- In Scenario 2, the hedges are assumed to exercise their right to terminate, and the estimated mark to market of such termination is included in the distribution waterfall.

Estimated outcomes

Returns by class

The Liquidity Facilities are either cancelled or undrawn and therefore do not have a claim in either scenario.

1) Liquidity Facility Class

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	N/A	N/A	N/A	N/A
Overview	<ul style="list-style-type: none"> In Scenario 1, the Liquidity Facilities are cancelled upon approval of the Plan and therefore these creditors do not have a resultant creditor claim. Recovery is therefore not applicable to this analysis. 		<ul style="list-style-type: none"> In the Relevant Alternative, the Liquidity Facilities remain undrawn and therefore these creditors do not have a resultant creditor claim. Recovery is therefore not applicable to this analysis. 	



Source: Teneo analysis

Estimated outcomes

Returns by class

Hedging agreements are expected to be maintained and not terminated in the Plan and Final RP.

No impairment is expected under the Plan approach for either class.

2) Interest Rate and Index Hedging Class

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	100.0p/£	100.0p/£	100.0p/£	100.0p/£
Overview	<ul style="list-style-type: none"> In Scenario 1, the interest rate and index hedging agreements continue to be serviced in line with the contractual obligations to maturity and are materially unaffected by the Plan. Value is therefore derived from the existing future contractual arrangements and the consent fee under the Plan. Mr Weerasinghe's valuation excludes the future hedge cash flows. We have therefore applied the discount rate used in the independent valuation expert's calculations to the future hedge cash flows from 30 Sep 25 to their respective maturities and included the resulting value as an adjustment to arrive at the distribution proceeds for the creditor waterfall. The consent fee notes of c.£2.3m are included in the creditor waterfall and paid in full at the end of the Final RP. In the event of a Final RP, there may be engagement between the incoming equity and hedge providers to align on a revised hedging approach which may require some restructuring of the underlying hedge instruments to align to this new approach and any changes to the underlying debt structures of the business. Any such engagement is expected to be consensual and preserve the relevant mark to market value of the hedges that prevails at that time. 		<ul style="list-style-type: none"> Under the terms of the ISDA (International Swaps and Derivatives Association) master agreements between TWUL/TWUF and the hedge providers, an insolvency event provides each hedge provider with the right (but not obligation) to terminate their agreements with TWUL/TWUF. Given the overall size of the hedge positions, across index, interest rate and currency, there is risk that the overall claim of hedge providers could change materially following an insolvency event if held open, with consequences for the level of regulatory capital that each hedge provider would need to allocate to those exposures. In the Relevant Alternative, the crystallised interest rate and index hedging liabilities rank only behind HMG funding arising during the SAR. It is therefore expected that all hedge providers would exercise their rights to terminate the hedge arrangements and crystallise a claim on the Group (applying to interest rate, index and currency hedges). This is expected to be netted between TWUL/TWUF and the relevant hedges to create a net claim from each hedge provider to each of TWUL and TWUF. The claim arising from the termination would then attract a default interest rate under the ISDA master agreement until settled. Value is derived from the transaction value and the fact that the termination payments rank close to the top of the creditor waterfall. 	



Source: Teneo analysis

Estimated outcomes

Returns by class

Interest rate and index hedging providers are estimated to receive 100.0p/£ in all scenarios.

In Scenario 1 this is from no change to ongoing contractual commitments and the Consent Fee.

In Scenario 2 this is from transaction value being sufficient to cover all the termination amounts.

2) Interest Rate and Index Hedging Class (cont'd)

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	100.0p/£	100.0p/£	100.0p/£	100.0p/£
Overview (cont'd from prior page)	<ul style="list-style-type: none"> Full recovery is expected. 		<ul style="list-style-type: none"> We note that the hedge providers act as calculation agent and would apply a bid/offer spread to close out prices. These close outs may increase such market spreads at that time. Financial markets may also move in the period to a SAR compared to those used to forecast the mark to market. This may cause the actual claim to be higher or lower than that currently estimated. That said, our view is that a current estimate of future mark to market claims is the best proxy for comparison to the Court. Full recovery of their claim is expected. 	

£bn	Scenario 1		Scenario 2	
	Plan & Final RP	RA (SAR)	Plan & Final RP	RA (SAR)
Recovery to Interest Rate and Index Hedges:		Base Case		Sensitised Case
<i>Claims at deal close:</i>				
Interest Rate and Index Hedges – MtM	-	1.64	-	1.64
Interest Rate and Index Hedges – consent fee notes	0.00	-	0.00	-
Interest Rate and Index Hedges – default interest	-	0.12	-	0.12
Total Interest Rate and Index Hedges claim size	A	0.00	1.77	0.00
<i>Distributions:</i>				
Interest Rate and Index Hedges – scheduled payments	-	-	-	-
Interest Rate and Index Hedges – termination payments	-	1.77	-	1.77
Interest Rate and Index Hedges – consent fee notes	0.00	-	0.00	-
Total expected distributions	B	0.00	1.77	0.00
Nominal recovery to Interest Rate and Index Hedges	B/A	100.0%	100.0%	100.0%

Source: Teneo analysis



Estimated outcomes

Returns by class

Given their elevation in the Plan, the currency hedging providers are estimated to receive 100.0p/£ in Scenario 1. This is derived from no change to ongoing contractual commitments and the consent fee.

In Scenario 2 only a partial recovery is expected as the currency hedge termination amounts rank alongside Class A debt principal.

3) Currency Hedging Class

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	100.0p/£	100.0p/£	74.4p/£	45.3p/£
Overview	<ul style="list-style-type: none"> In Scenario 1, and as with the Interest Rate and Index Hedging Class described in the preceding two pages, the currency hedges also continue to be serviced in line with their contractual obligations to maturity. Value is therefore derived from the existing future contractual arrangements and the consent fee under the Plan. The currency hedges have their waterfall ranking elevated as part of the Plan but are otherwise expected to continue to be paid in accordance with their contractual terms. Again, as with the Interest Rate and Index Hedging Class, we have applied the discount rate used in the independent valuation expert's calculations to the future hedge cash flows from 30 Sep 25 to their respective maturities and included the resulting value as an adjustment to arrive at the distribution proceeds in the creditor waterfall. The consent fee notes of c.£0.8m are included in the creditor waterfall and paid in full at the end of the Final RP. This claim ranks pari passu with the Super-Senior debt accrued interest. Full recovery is expected. <ul style="list-style-type: none"> See the preceding two pages for details on the hedge positions in Scenario 2. In the Relevant Alternative, the crystallised currency hedge liabilities rank pari passu with Class A debt principal, rather than being elevated as in Scenario 1. Value is derived from the transaction value but is diluted by the fact that currency hedge termination payments rank alongside Class A debt principal. The value breaks within the Class A ranking in the creditor waterfall under the Base and Sensitised Cases. The currency hedging providers are therefore not estimated to recover the full value of their claims. 			



Estimated outcomes

Returns by class

Given their elevation in the Plan, the currency hedging providers are estimated to receive 100.0p/£ in Scenario 1. This is derived from no change to ongoing contractual commitments and the consent fee.

In Scenario 2 only a partial recovery is expected as the currency hedge termination amounts rank alongside Class A debt principal.

3) Currency Hedging Class (cont'd)

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	100.0p/£	100.0p/£	74.4p/£	45.3p/£

£bn		Scenario 1	Scenario 2	Scenario 1	Scenario 2
		Plan & Final RP	RA (SAR)	Plan & Final RP	RA (SAR)
Recovery to Currency Hedges:		Base Case		Sensitised Case	
<i>Claims at deal close:</i>					
	Currency Hedges – MtM	-	0.11	-	0.11
	Currency Hedges – consent fee notes	0.00	-	0.00	-
	Currency Hedges – default interest	-	0.01	-	0.01
	Total Currency Hedges claim size	A 0.00	0.12	0.00	0.12
<i>Distributions:</i>					
	Currency Hedges – consent fee notes	0.00	-	0.00	-
	Currency Hedges – scheduled payments	-	-	-	-
	Currency Hedges – termination payments	-	0.09	-	0.05
	Total expected distributions	B 0.00	0.09	0.00	0.05
	Nominal recovery to Currency Hedges	B/A 100.0%	74.4%	100.0%	45.3%



Estimated outcomes

Returns by class

The Class A Debt Make-Whole creditor class crystallises in Scenario 2 only.

The value break is estimated to occur in the Class A.

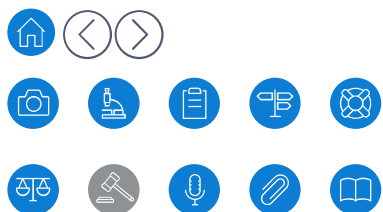
Scenario 1 represents a 12.5p/£ better outcome for Class A compared to Scenario 2 in the Base Case and a 11.2p/£ better outcome in the Sensitised Case.

4) Class A Debt Make-Whole Class

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	84.0p/£	58.5p/£	71.5p/£	47.3p/£
Overview	<ul style="list-style-type: none"> The Class A Debt Make-Whole provisions are not triggered in Scenario 1. The value to Class A Debt Make-Whole creditors is therefore similar to that of the Class A Debt Non-Make-Whole creditors, with the marginal difference arising due to the different proportions of accrued interest between the Non-Make-Whole and Make-Whole instruments. 		<ul style="list-style-type: none"> In a SAR the Class A claims rank alongside currency hedge termination claims. The Make-whole provisions are triggered, however these rank below the Class A loan principal claims and there is therefore a smaller expected p/£ recovery than for the Non-Make-Whole claims in Scenario 2. Partial recovery expected under both the Base and Sensitised Cases. 	

£bn	Scenario 1		Scenario 2	
	Plan & Final RP	RA (SAR)	Plan & Final RP	RA (SAR)
Recovery to Class A Debt Make-Whole Creditors:	Base Case		Sensitised Case	
<i>Claims at deal close:</i>				
Class A Debt Make-Whole – principal	8.56	8.63	8.56	8.63
Class A Debt Make-Whole – Make-whole element	-	0.74	-	0.74
Class A Debt Make-Whole – accrued interest	0.16	0.91	0.16	0.91
Class A Debt Make-Whole – cash interest	0.29	-	0.29	-
Class A Debt Make-Whole – consent fee notes	0.06	-	0.06	-
Class A Debt Make-Whole – default interest	-	0.08	-	0.08
Total Class A Make-Whole claim size	A 9.08	10.37	9.08	10.37
<i>Distributions:</i>				
Class A Debt Make-Whole – accrued interest, fees	0.16	0.99	0.16	0.99
Class A Debt Make-Whole – consent fee notes	0.06	-	0.06	-
Class A Debt Make-Whole – principal	7.11	6.42	4.79	3.91
Class A Debt Make-Whole – Make-whole element	-	-	-	-
Waterfall distributions to Class A Debt Make-Whole	7.33	7.41	5.01	4.90
Cash interest	0.29	-	0.29	-
Total expected distributions	B 7.62	7.41	5.31	4.90
Nominal recovery to Class A Debt Make-Whole	B/A 84.0%	71.5%	58.5%	47.3%

Source: Teneo analysis



Estimated outcomes

Returns by class

The value break is estimated to occur in the Class A.

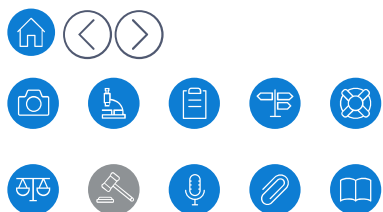
Scenario 1 represents a 7.6p/£ better outcome for Class A compared to Scenario 2 in the Base Case and a 8.6p/£ better outcome in the Sensitised Case.

5) Class A Debt Non-Make-Whole Class

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	83.7p/£	57.7p/£	76.1p/£	49.1p/£
Overview	<ul style="list-style-type: none"> Value break is in the Class A debt principle in both the Base Case and Sensitised Case. Value is derived from the transaction net of Super-Senior funding and the cash interest received and fees under the Plan terms. Partial recovery expected. 		<ul style="list-style-type: none"> In a SAR the Class A claims rank alongside currency hedge termination claims. Partial recovery expected under both the Base and Sensitised Cases. 	

£bn	Scenario 1		Scenario 2	
	Plan & Final RP	RA (SAR)	Plan & Final RP	RA (SAR)
Recovery to Class A Debt Non-Make-Whole Creditors:	Base Case		Sensitised Case	
<i>Claims at deal close:</i>				
Class A Debt Non-Make-Whole – principal	7.31	7.44	7.31	7.44
Class A Debt Non-Make-Whole – accrued interest	0.08	0.51	0.08	0.51
Class A Debt Non-Make-Whole – cash interest	0.16	-	0.16	-
Class A Debt Non-Make-Whole – consent fee notes	0.05	-	0.05	-
Class A Debt Non-Make-Whole – default interest	-	0.05	-	0.05
Total Class A Debt Non-Make-Whole claim size	A 7.60	7.99	7.60	7.99
<i>Distributions:</i>				
Class A Debt Non-Make-Whole – accrued interest, fees	0.08	0.56	0.08	0.56
Class A Debt Non-Make-Whole – consent fee notes	0.05	-	0.05	-
Class A Debt Non-Make-Whole – principal	6.07	5.53	4.09	3.37
Waterfall distributions to Class A Debt Non-Make-Whole	6.20	6.09	4.22	3.93
Cash interest	0.16	-	0.16	-
Total expected distributions	B 6.36	6.09	4.38	3.93
Nominal recovery to Class A Debt Non-Make-Whole	B/A 83.7%	76.1%	57.7%	49.1%

Source: Teneo analysis



Estimated outcomes

Returns by class

Scenario 1 represents a 3.5p/£ better outcome for Class A compared to Scenario 2 in the Base Case and a 3.5p/£ better outcome in the Sensitised Case.

The only value available to Class B is from the cash interest under the Plan in Scenario 1.

There is no value available in Scenario 2.

6) Class B Debt Class

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	3.5p/£	3.5p/£	0.0p/£	0.0p/£
Overview	<ul style="list-style-type: none"> The only value is derived from the cash interest received under the Plan terms. The transaction value is not sufficient to deliver value for Class B. 		<ul style="list-style-type: none"> There is no value available for Class B in Scenario 2. The transaction value is not sufficient to deliver value for Class B and there is no cash interest received in Scenario 2. No recovery expected. 	

£bn	Scenario 1		Scenario 2	
	Plan & Final RP	RA (SAR)	Plan & Final RP	RA (SAR)
Recovery to Class B:	Base Case		Sensitised Case	
<i>Claims at deal close:</i>				
Class B Debt – principal	0.99	0.99	0.99	0.99
Class B Debt – accrued interest	0.01	0.09	0.01	0.09
Class B Debt – cash interest	0.04	-	0.04	-
Class B Debt – consent fee notes	0.00	-	0.00	-
Class B Debt – default interest	-	0.02	-	0.02
Class B Debt – Make-whole	-	-	-	-
Total Class B Debt claim size	A	1.05	1.10	1.05
<i>Distributions:</i>				
Class B Debt – accrued interest, fees	-	-	-	-
Class B Debt – consent fee notes	-	-	-	-
Class B Debt – principal	-	-	-	-
Class B Debt – Make-whole	-	-	-	-
Waterfall distributions to Class B Debt				
Cash interest		0.04		0.04
Total expected distributions	B	0.04	-	0.04
Nominal recovery to Class B Debt	B/A	3.5%	-	3.5%

Source: Teneo analysis



Estimated outcomes

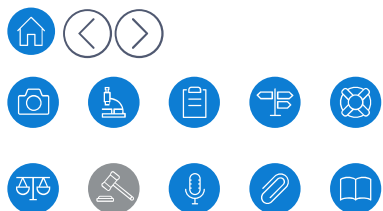
Returns by class

In all scenarios, the subordinated creditors are not expected to receive any recovery.

7) Subordinated Creditor Class

	Scenario 1 Plan and Final RP		Scenario 2 Relevant Alternative (SAR)	
	Base	Sensitised	Base	Sensitised
Return	0.0p/£	0.0p/£	0.0p/£	0.0p/£
Overview	<ul style="list-style-type: none"> There is no return to the Subordinated Creditor Class, which is comprised of the intercompany loan owed by TWUHL to TWL. The transaction value is not sufficient and there is no cash interest or fees for the creditor Class. No recovery expected. 			

£bn	Scenario 1		Scenario 2	
	Plan & Final RP	RA (SAR)	Plan & Final RP	RA (SAR)
Recovery to Subordinated Debt:	Base Case		Sensitised Case	
<i>Claims at deal close:</i>				
Subordinated Debt – principal	3.74	3.92	3.74	3.92
Total Subordinated Debt claim size	A 3.74	3.92	3.74	3.92
<i>Distributions:</i>				
Distributions to Subordinated Debt	-	-	-	-
Total expected distributions	B -	-	-	-
Nominal recovery to Subordinated Debt	B/A -	-	-	-



Estimated outcomes

Non-impacted creditors

We have only identified one additional creditor balance which is not impacted by the Plan.

This consists of an intercompany payable owed to TWUL.

Given our findings earlier in this section, this balance would fall below the expected value break in any scenario.

Other/Non impacted creditors

Liabilities to intercompany creditors:

- The Company's latest published Balance Sheet was dated 31 Mar 24. This showed TWUHL's liabilities consisted entirely of intercompany creditors, being:
 - £3,423.0m owed to TWL (Subordinated Loans); and
 - £1,319.5m owed to TWUL (unsecured liability).
- The intercompany creditor owed to TWL represents the Subordinated Creditor Class balance amended as part of the Plan.
- The remaining intercompany creditor balance of £1.3bn owed to TWUL does not fall within any of the impacted creditor Classes in the Plan. This does, however, rank pari passu with the Subordinated Loans in the Relevant Alternative.
- Both the Subordinated Loans and unsecured liability are extended by two years – the former is effected through the Plan while we understand from Linklaters that the latter is expected to be effected through a consensual agreement.
- Within the creditor waterfall considered earlier in this section, these creditors would fall below the expected value break in any scenario.
- Accordingly, the Company considers it proportional and appropriate to exclude other intercompany creditors from the RP.

Other creditor classes:

- Whilst there are no other creditors included in the Company's balance sheet, we have considered the following areas, to assess the extent to which any guarantee liabilities etc. may apply:
 - Guarantees and capital commitments disclosed within the latest statutory accounts relate to only the WBS debt.
 - The Company does not have any employees and is therefore not believed to have any contingent employee claims (e.g. arrears of wages, holiday pay etc).
 - There is no reference to any guarantees to the defined benefit pension funds.
 - TWUHL is part of the wider Thames VAT group. Given the nature of the group's supplies means that VAT is in a reclaim position each month, this would not be expected to result in a creditor balance.
 - The business is liable for Corporation tax, but holds significant tax losses, and therefore would also not be expected to result in a creditor balance owed to HMRC.
- There are no known additional obligations owed by the Company which have not been allocated to a creditor class within the Plan.





Conclusions

Overview

106



Conclusions

Overview

Based on the work I have undertaken, as set out in this Report, I have reached the conclusion that the Plan will result in no creditor class being worse off than in the Relevant Alternative.

Conclusion

- Based on the work I have undertaken, as set out in this report, I have reached the conclusion that the Plan will result in no creditor class being worse off based upon their claim at the time of a transaction than in the Relevant Alternative.

Statement of Compliance

- I understand my duty as an expert witness is to the Court. I have complied with that duty and will continue to comply with it. This Report includes all matters relevant to the issues on which my expert evidence is given. I have given details in this Report of any matters which might affect the validity of this Report. I have addressed this Report to the Court. I further understand that my duty to the Court overrides any obligation to the party from whom I received instructions.

Declaration

- I confirm that I am aware of the requirements of Part 35 and Practice Direction 35, and the Guidance for the Instruction of Experts in Civil Claims 2014.

Statement of Truth

- I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer. I understand that proceedings for contempt of Court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.



Appendices

1	Matthew Cowlshaw - CV	108
2	Information sources	111
3	Instructions	114
4	Kemble Group structure	119
5	Creditor build-up	120
6	Illustrative waterfall applied to valuation outcomes	124



Appendix 1

Matthew Cowlshaw - CV

Detailed Curriculum Vitae

- I am a Senior Managing Director at Teneo Financial Advisory specialising in restructuring.
- My opinion is based on over 28 years of restructuring experience. The first 25 years of my career were spent with one of the “Big 4” accounting firms, 12 years of which were as a partner.
- I have been a Chartered Accountant since 1999, qualified as an insolvency practitioner in 2003 and have taken insolvency appointments since 2009.
- The type of advice that I provide includes:
 - Taking formal insolvency appointments (mainly administration and liquidation appointments)
 - Contingency planning for insolvency
 - Options analysis
 - Independent Business Reviews
 - Supporting corporates and stakeholders navigate financial distress
 - Covenant reviews assessing strength of employers for pension stakeholders
- During my career I have been appointed insolvency practitioner to over 250 companies.
- My clients include corporates, lenders, regulators, Government departments and pension stakeholders.
- I have a degree in Economics and Econometrics from the University of Nottingham.
- I am a member of the ICAEW Conduct Committee.

Detailed Curriculum Vitae

- Of particular note is my appointment as Special Administrator of Bulb Energy Limited, the first and only UK utility company to be placed into a Special Administration process, funded by HMG.
- I was appointed to this role in Nov 21, and subsequently completed on a sale of its business and assets in Dec 22 via an Energy Transfer Scheme. This appointment remains live. The energy supply company administration regime under the Energy Act 2011 is broadly comparable to the water special administration regime under the WIA. See overleaf for more detail.

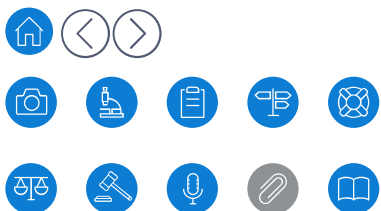


Appendix 1

Matthew Cowlshaw - CV

Selected restructuring experience

- **Lead Energy Administrator on Special Administration of Bulb Energy Limited:** Following an application made on 23 November 2021 by the Gas and Electricity Markets Authority ("GEMA"), acting by the Office of Gas and Electricity Markets ("Ofgem"), I, together with two of my colleagues, were appointed as the energy administrators (the "Energy Administrators") of Bulb Energy Ltd (in energy supply company ("Esc") administration) (the "Company"), pursuant to section 94 of the Energy Act 2011 (the "2011 Act") by Order of Mr Justice Adam Johnson made at a hearing on 24 November 2021.
- At the same hearing, the Energy Administrators were authorised and directed to enter into, and to cause the Company to enter into, an administration funding agreement with the Secretary of State for Business, Energy and Industrial Strategy ("BEIS") (now the Department for Energy Security and Net Zero) ("DESNZ") (the "Funding Agreement"), pursuant to which the Government made available a £1.689 billion working capital facility (as subsequently varied).
- The statutory objective of the Esc Administration is, in summary, to secure (i) that energy supplies are continued at the lowest cost it is reasonably practicable to incur; and (ii) that it becomes unnecessary, by the sale of the company or the transfer of its assets (or part of them) as a going concern, for the esc administration order to remain in force (the "Objective").
- Following an extensive marketing process, on 20 December 2022, the vast majority of the business, assets and liabilities of the Company were transferred to a wholly owned subsidiary of the Company ("HiveCo") and, immediately thereafter, the entire issued share capital of HiveCo was transferred to a purchaser ("BidCo") from the Octopus Energy Group ("Octopus Energy") (the "Transaction"). The Transaction was given effect, in part, by an energy transfer scheme in accordance with Schedule 21 to the Energy Act 2004 (the "2004 Act") ("ETS"), as provided for by the order of Mr Justice Zacaroli dated 30 November 2022.
- I remain as Energy Administrator dealing with the post transaction completion phase of the insolvency dealing with final asset realisations and distributions to creditors.
- The energy supply company administration regime under the Energy Act 2011 is broadly comparable to the water special administration regime under the WIA.
- This is relevant to the Plan given the special administration regime, the funding arrangements with HMG, trading a regulated entity for a prolonged period of time, assessing the exit routes from a special administration, delivering a transaction using the ETS and dealing with a wide range of Government stakeholders.



Appendix 1

Matthew Cowlshaw - CV

Selected restructuring experience

A number of selected credentials are set out below covering dealing with significant UK assets, operating in a regulated/ specialist environment, dealing with Government stakeholders, dealing with consumer facing businesses and arranging funding in an insolvency.

- **Contingency planning for insolvency of key strategic infrastructure asset in the UK:** Led detailed contingency planning for a £2bn+ global manufacturer of strategic importance to UK with unionised workforce of 8,000+. This involved assessment of insolvency options, developing the insolvency strategy to maximise return to creditors and assessing the impact of the insolvency on the wider group and Government stakeholders.
- **Implementation of solvent managed exit of large industrial asset:** Led team to support management implement a material transformation of its UK operations involving significant solvent closures of COMAH Tier 1 sites, cost reduction, project management, scenario planning, employee advisory and HMG funding process.
- **Contingency planning for insolvency of industrial group of national interest:** Led work for Government stakeholder in relation to options facing the business, detailed contingency planning for an insolvency, identifying key risks, estimating the funding required and assessing the impact on key stakeholders.
- **Appointed lead administrator over four separate energy supply company administrations via Supplier of Last Resort process.** This work involves navigating a regulated environment, extensive liaison with the regulator (Ofgem), delivering a transfer of the customer book via the industry processes, liaison with the retail consumer base and realisation of consumer debt and other assets.
- **Options analysis and administration of PFI special purpose vehicle in relation to Hospital :** Appointed to special purpose vehicle managing infrastructure asset. Involved managed hand back of asset and dealing with litigation surrounding compensation of termination claim.
- **Options analysis and administration of PFI special purpose vehicle for energy from waste facility :** Appointed to special purpose vehicle managing infrastructure asset. Involved managed hand back of asset and dealing with litigation surrounding compensation of termination claim that ultimately led to an out of Court settlement.
- **Administration of solar asset business:** Options advice and subsequent administration appointment in relation to a social enterprise owning a portfolio of rooftop solar installations funded by the Local Authority.
- **Administration of Local Authority owned energy business.** Options advice, accelerated M&A and subsequent insolvency to deliver best value for creditors.
- **Independent Business Review of large diversified consumer facing group:** Review for banking syndicate to assess future viability and impact of non-core exit strategy.
- **Independent Business Review and estimated outcome statement of listed consumer product retailer:** Review of turnaround of listed business to assess viability for key stakeholder. Involved assessment of estimated outcome in an insolvency.
- **Trading administration of tier 1 automotive supplier:** 14 month trading administration of tier 1 automotive supplier involving funding arrangements with OEMs, sales process and ultimate closure of facility.



Appendix 2

Information sources

Information received by me and which I have relied upon for the purpose of preparing this report

Key information and related provisions

Historical Financial Information sourced from the public domain

- Annual Reports of TWUL , TWUHL, TWUF for the year ending 31 Mar 24
- Payment Practices Report (31 Mar 24)

[thames-water-annual-report-2023-24.pdf](#)

[twuhl-annual-report-2023-24.pdf](#)

[twuf-annual-report-2023-24.pdf](#)

<https://check-payment-practices.service.gov.uk/report/83720/>

Financial Projections from FY2026 through to FY2040 under Base case and Sensitised Case

- TWUL's forecast Crabtree model dated 04 Dec 24 - Long term annual three financial statement forecast including the base and sensitised cases
- Company monthly liquidity model to Mar 27 dated 30 Nov 24 received on 05 Dec 24 (data also used to cross reference debt position workings)
- Operating costs budget for FY25

[9.1.6 2410 Project Crabtree - Financial model_vG - IBP25 20-year Totex Planning Assumptions 04.12.xlsx](#)

[9.4.62 Monthly Liquidity draft 30.11 for Teneo.xlsx](#)

[IBP25 20-year totex planning assumptions Final Draft.pdf](#)

[OPEX ANALYSIS 1.XLSX](#)

IBP25 Business Plan documents and narrative

- IBP25 delivery plan - used to provide an indicative split of Maintenance and Enhancement Capex

[12.3.5.8 One Capex file - v22-08-2024.xlsx](#)

[12.3.5.6 TWUL Board - IBP25 costs \(Aug-24\)](#)

Ofwat PR24 review process

- Ofwat Draft Determination
- TWUL Draft Determination response

[TMS PR24 financial model v21s TEMPLATE.xlsx](#)

[TMS-DD-031 PR24 Financial Model \(with DM\).xlsx](#)

Outstanding Debt position as at 31 August 2024 and unadjusted market to market value of Swaps as at 29 October 2024.

- Utilisation data as at 31 Aug 24, including a full list of secured creditors and latest balances. This has been used in the roll-forward of creditor claims to transaction dates in our RA analysis.
- Intercompany matrix as at 31 Mar 24. This is the source of intercompany loan balances used in the creditor waterfall
- Debt facility documents (Original facility agreements, amendments and restatements)
- Swap ISDA and schedule letters
- Swap confirmations
- Swap cash flow forecast as of 29 Oct 24. This has been used to calculate swap MTM values in each scenario
- Make whole provision summary
- Default interest summary
- RPI Accretion Agreements
- Debt schedule with additional overlays for interest payments (frequency and timing), day count convention and business day convention

[Debt percentage by Class - 31 Aug 2024](#)

[12.8.4.24 C17 - Intercompany Loan Balances as at 31 March 2024 \(1\).xlsx](#)

[12.9.1 Financing & debt documentation](#)

[12.9.1.3.1 ISDA Schedules](#)

[12.9.1.3.3 Swap Confirmations](#)

[Swaps - 29 Oct 2024 Undiscounted Cash flows and unadjusted MTM.xlsx](#)

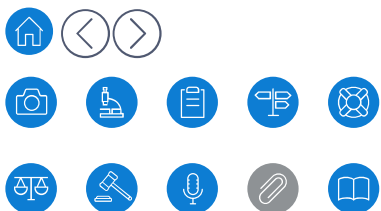
[Thames - Make Whole Table\(3203143553.4\)](#)

[Crabtree - Default Interest Summary_Updated 011024\(3203874213.1\) \(002\)](#)

[RPI Accretion Agreements folder](#)

[Teneo Crabtree Debt Schedule_LL Comments 300924\(3203644365.5\)](#)

[FW Debt Calculations run through.msg](#)



Appendix 2

Information sources

Information received by me and which I have relied upon for the purpose of preparing this report

Key information and related provisions

Market data

We also consulted various general financial information resources and databases, including:

- S&P Capital IQ;
- Bloomberg;
- Factset;
- Brokers Research Reports; and
- Publicly available financial and other information related to Thames Water, the market and comparable companies

Fixed asset register

- FA register as at 31 Mar 24. This has not been used in the Report (although did aid in informing our background understanding and protected land discussions - which were ultimately superseded by the Instructions regarding treatment of security)

[12.3.2.2.3 Fixed Asset Register Mar24](#)

Documentation related to The Groups WBS Structure

- Sixth Amendment And Restatement Agreement Relating To The Common Terms Agreement (dated 26 June 2020)

[12.9.1.4.10 Sixth Amendment and Restatement Agreement relating to the Common Terms Agreement dated 26 June 2020_EXECUTED](#)

The executed copy of Practice Statement Letter for the proposed RP

- The executed copy of the Practice Statement Letter dated 22 Nov 24

[Crabtree_Practice Statement Letter_EXECUTED.pdf](#)

Details regarding the additional penalties, fines, capital expenditures and ODI cost sensitivities as identified by the Company

- RNS announcement dated 25 Oct 24
- Environmental Compliance and Regulatory Investigation presentation dated 25 Oct 24

Terms of Super-Senior funding

- Project Crabtree Super-Senior term sheet and TSA (respectively the first two documents listed below) dated 25 Oct 24. This has been used to model the Super-Senior funding amounts
- Consent fee accession data sourced from the TSA Report dated 09 Dec 24. This has been used, with the Super-Senior term sheet, to calculate the consent fee notes used in the creditor waterfall

[Crabtree - Final Term Sheet\(3203922719.59\).docx](#)

[Crabtree Transaction Support agreement EXECUTION VERSION 25_10_24\(3202041334.78\).docx](#)

[Crabtree Thames Water - TSA Report.xlsx](#)

Mr Eraj Weerasinghe Independent Expert Valuation

Independent expert valuation report dated 11 Dec 24

Access to Company Management and Advisor groups

- Discussions with Linklaters (lead legal advisor to the Group) relating to the Relevant Alternative approach and SAR contingency planning
- Discussions with Rothschilds & Co (lead financial advisor to the Group) primarily relating to likely timetable to reach a deal



Appendix 2

Information sources

Information received by me and which I have relied upon for the purpose of preparing this report

Key information and related provisions

Access to Company Management and Advisor groups (cont'd)

- My team and I have engaged in regular discussions and interactions regarding this Report with the following key individuals at the Company:
 - Chris Weston (CEO)
 - Al Cochran (CFO)
 - Andy Fraser (General Counsel)
 - Fred Maroudas (Director of Corporate Finance)
 - Aidan de Brunner (Independent Non-Exec)
 - Cathryn Ross (Regulatory)
 - Jonathan Haskins (Chief Risk and Compliance Officer)
 - Jonathan Hagan (Director of Economic Regulation)
 - Tim Pau (Corporate Finance)
 - Alison Stevens (Treasury)
 - Madhup Goswami (Treasury)



Appendix 3

Instructions

Linklaters

Linklaters LLP
 One Silk Street
 London EC2Y 8HQ
 Telephone (+44) 20 7456 2000
 Facsimile (+44) 20 7456 2222
 DX Box Number 10 CDE
 euan.clarke@linklaters.com

Teneo Financial Advisory Limited
 5th Floor, 8 More London Place
 London
 SE1 2DA

For the attention of Matt Cowlshaw

By e-mail

5 December 2024

Our ref: L-334395

Dear Mr Cowlshaw

Project Crabtree: Thames Water Utilities Holdings Limited ("TWUHL" or the "Plan Company") – Relevant Alternative report

Thank you for agreeing to act for TWUHL as an independent expert to prepare a Relevant Alternative report in relation to the proposed financial restructuring of the liabilities of TWUHL, Thames Water Utilities Limited ("TWUL") and Thames Water Utilities Finance plc ("TWUF") (together the "Thames Water Group"), with respect to the interim transaction (the "Interim Platform Transaction"), to be implemented by an English law Restructuring Plan under Part 26A of the Companies Act 2006 (the "Plan").

1 Introduction

- 1.1 As you are aware, we act for the Thames Water Group as a whole and the Plan Company in relation to the Plan.
- 1.2 The purpose of this letter is to confirm the scope of your instructions as an independent expert witness, in relation to the Plan, pursuant to Part 36 of the Civil Procedure Rules 1998 (the "CPR"), which govern the conduct and procedure of civil litigation before the courts of England and Wales.
- 1.3 Your assistance is required to consider and advise on the issues set out in this letter, including consideration of the steps required for expert evidence as set out in paragraph 8 below as an independent expert witness.

This communication is confidential and may be privileged or otherwise protected by work product immunity.

Linklaters LLP is a limited liability partnership registered in England and Wales with registered number OC326345. It is a law firm authorised and regulated by the Solicitors Regulation Authority. The term partner in relation to Linklaters LLP is used to refer to a member of Linklaters LLP or an employee or consultant of Linklaters LLP or any of its affiliated firms or entities with equivalent standing and qualifications. A list of the names of the members of Linklaters LLP together with a list of those non-members who are designated as partners and their professional qualifications is open to inspection at its registered office, One Silk Street, London EC2Y 8HQ or on www.linklaters.com and such persons are either solicitors, registered foreign lawyers or European lawyers.

Please refer to www.linklaters.com/regulation for important information on Linklaters LLP's regulatory position.
 3204461798/14/05 Dec 2024

- 1.4 Capitalised terms used but not defined in this letter have the meaning given to them by the Master Definition Agreement,¹ the Common Terms Agreement² and the Practice Statement Letter issued by the Plan Company on 22 November 2024 (the "PSL").

2 Background

- 2.1 The Plan Company was incorporated and registered in England and Wales on 30 March 2007. It is the parent of the Thames Water Group and its principal activity is to (i) hold the shares in TWUL, and (ii) guarantee the obligations of TWUL and TWUF under the Finance Documents. It has no employees nor any material assets (other than the shares in TWUL).
- 2.2 The Thames Water Group is the largest provider of water and sewerage services in the UK by RCV and number of customers, with an RCA of £19.9 billion serving approximately 24 per cent. of the UK population. Its business comprises of:
 - 2.2.1 the appointed business, which consists of regulated water and sewerage undertaker activities, and
 - 2.2.2 the permitted non-appointed business, which consists of third-party discharges to sewage treatment works and other commercial activities, including (but not limited to) property searches and treatment of waste from private receptacles not linked to the Thames Water Group's network.

- 2.3 The above-described services are delivered through TWUL, an Ofwat-regulated entity, in accordance with its licence from the Secretary of State for the Environment, Food and Rural Affairs and the terms of its licence granted by Ofwat (the "Licence"). In addition to its appointed and permitted non-appointed business activities, TWUL's other principal activities is as issuer, borrower or hedge counterparty (as the case may be) of certain Class A Debt, Class B Debt and Hedging Agreements.

- 2.4 TWUF's principal activities are as issuer, borrower or hedge counterparty (as the case may be) of the Liquidity Facilities and certain of the Class A Debt, Class B Debt and Hedging Agreements. TWUF is, and has been since 2018, the issuer, borrower, hedge counterparty or principal debtor (as the case may be) of certain of the Class A Debt, Class B Debt and Hedging Agreements.

- 2.5 TWUHL is a wholly owned direct subsidiary of Thames Water Limited ("TWL"), which is indirectly wholly owned by Kemble Water Holdings Limited. The Thames Water Group is effectively "ring-fenced" from the Kemble Group,³ due to the regulatory restrictions applying to the Thames Water Group under TWUL's Licence.

3 Group financial arrangements

- 3.1 Thames Water Group's key external Financial Indebtedness is subject to the terms of the Master Definitions Agreement, the Common Terms Agreement and the Security Trust and Intercreditor

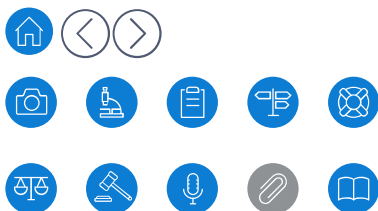
¹ The master definitions agreement originally dated 30 August 2007, between, amongst others, the Plan Company, TWUL and TWUF as obligors, and Deutsche Trustee Company Limited as security trustee (the "Security Trustee"), as amended and restated from time to time.

² The common terms agreement originally dated 30 August 2007, between, amongst others, TWUHL, TWUL and TWUF as obligors, and the Security Trustee, as amended and restated from time to time.

³ Being TWL, Kemble Water Holdings Limited and the entities between.

3204461798/14/05 Dec 2024

Page 2 of 9



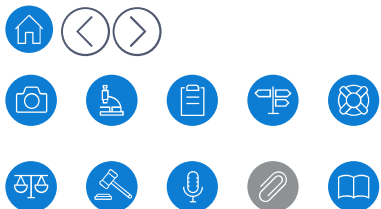
Appendix 3

Instructions

- Deed,⁴ which, amongst other things, govern the terms of the claims of the Thames Water Group's creditors, their rights relative to each other, payment priorities and security.
- 3.2 The Plan relates to the rights, liabilities and/or obligations arising under the following debt instruments:
- 3.2.1 Liquidity Facilities, comprising the Class A DSR Liquidity Facility, the Class B DSR Liquidity Facility and the O&M Reserve Facility;
 - 3.2.2 the Interest Rate and Index Hedging Agreements;
 - 3.2.3 the Currency Hedging Agreements;
 - 3.2.4 Class A Debt, comprising the Accretion Agreements, Class A RCFs, Class A TLs, Class A Notes and Class A Bonds;
 - 3.2.5 Class B Debt, comprising the Class B RCFs, Class B TLs and Class B Bonds (together with the debt listed under Section 3.2.1 to 3.2.4, the "Secured Debt"); and
 - 3.2.6 the Subordinated Loans.
- (together, the "Plan Debt").
- 3.3 The Secured Debt benefits from a shared security package granted in favour of the Security Trustee on behalf of the Secured Creditors pursuant to the Security Agreement. The Thames Water Group also granted the following guarantees to the Security Trustee, on behalf of the Secured Creditors:
- 3.3.1 the Plan Company guaranteed all obligations of TWUL and TWUF under the Finance Documents;
 - 3.3.2 TWUL guaranteed all obligations of TWUF under the Finance Documents; and
 - 3.3.3 TWUF guaranteed all obligations of TWUL under the Finance Documents.
- 3.4 The Subordinated Loans do not benefit from any security or from any guarantee.
- 3.5 It is contemplated that in advance of the Convening Hearing, the Plan Company will have entered into a deed of contribution pursuant to which the Plan Company will undertake in favour of TWUL and TWUF to contribute to any amounts that are paid by either TWUL or TWUF towards the obligations under any of the Senior Debt (the "Deed of Contribution"). The Deed of Contribution will result in TWUL and TWUF having rights of contribution against the Plan Company. As a result, the Plan Company would not be able to effectively obtain a release or variation of the Plan Creditors' rights against it in respect of the Secured Debt without also seeking to release or vary the Plan Creditors' rights as against TWUL and TWUF.
- 4 Ranking**
- 4.1 Pursuant to the Security Trust and Intercreditor Deed and the Common Terms Agreement, the liabilities owed to the Liquidity Facility Lenders, Class A Debt Creditors, Class B Debt Creditors, Interest Rate and Index Hedging Providers and Currency Hedging Providers currently rank in right and priority of payment in the following order (in abridged summary):

⁴ Being the security trust and intercreditor deed originally dated 30 August 2007 between, amongst others, the Plan Company, TWUL, TWUF, and the Security Trustee, as amended and restated from time to time.

- 4.1.1 *first*, on a pro-rata basis according to the respective amounts thereof, all amounts of fees, interest and principal under the Liquidity Facilities;
 - 4.1.2 *second*, on a pro-rata basis according to the respective amounts thereof, all scheduled amounts under the Interest Rate and Index Hedging Agreements;
 - 4.1.3 *third*, on a pro-rata basis according to the respective amounts thereof:
 - (i) all amounts of interest, Recurring Fees and commitment commissions under the Class A Debt;
 - (ii) all unscheduled and termination amounts under the Interest Rate and Index Hedging Agreements;
 - (iii) all scheduled amounts (other than principal or final exchange amounts) under the Currency Hedging Agreements in respect of Class A Debt and, provided the Standstill Period has terminated (other than in certain limited circumstances), all other amounts payable under the Currency Hedging Agreements in respect of Class A Debt; and
 - (iv) all amounts of underwriting commissions under the Class A Debt;
 - 4.1.4 *fourth*, on a pro-rata basis according to the respective amounts thereof,
 - (i) all principal amounts under the Class A Debt;
 - (ii) all principal or final exchange amounts under the Currency Hedging Agreements; and
 - (iii) any termination amounts or other unscheduled sums under the Currency Hedging Agreement;
 - 4.1.5 *fifth*, any Make-Whole Amount under the Class A Debt;
 - 4.1.6 *sixth*, on a pro-rata basis according to the respective amounts thereof:
 - (i) all interest and commitment commissions under the Class B Debt; and
 - (ii) all amounts of underwriting commission under the Class B Debt;
 - 4.1.7 *seventh*, on a pro-rata basis, all amounts of principal under the Class B Debt; and
 - 4.1.8 *eighth*, any Make-Whole Amount under the Class B Debt.
- 4.2 Pursuant to the Security Trust and Intercreditor Deed, the Subordinated Loans are junior and subordinated to the rights and claims of all the Secured Creditors. No payment can be made in respect of any Subordinated Loan prior to the full discharge of the liabilities under the Secured Debt unless such payment is a Restricted Payment permitted to be paid pursuant to the Finance Documents or otherwise permitted under the Finance Documents. Where an Obligor is unable to pay an amount due and payable under a Subordinated Loan, such amount is automatically deferred.
- 4.3 The above-described Payment Priorities only summarise the position under the Security Trust and Intercreditor Deed and the Common Terms Agreement insofar as it relates to the Plan Creditors and does not include references to any liabilities or parties that are not proposed to be compromised by the Plan and Interim Platform Transaction.



Appendix 3

Instructions

5 The need for the Interim Platform Transaction

- 5.1 The Group's ability to raise new capital has been restricted, as a result of various macro-economic and regulatory factors.⁵ This in turn has resulted in the Group's liquidity position deteriorating.
- 5.2 Thames Water Group's ultimate shareholders (the "Shareholders") provided GBP 500,000,000 of new equity funding in March 2023. The Shareholders had also: (i) agreed to provide an additional GBP 750,000,000 of new equity funding (with the first GBP 500,000,000 of this to be provided in March 2024); and (ii) acknowledged the possibility of further medium-term equity investment, in the region of approximately GBP 2,500,000,000 (the "New Shareholder Funding"). However, the Shareholders' agreement to provide the New Shareholder Funding was subject to certain conditions, including the preparation of a business plan that was supported by regulatory arrangements. The Shareholders, based on Ofwat's feedback shared over February and March 2024, determined that the expected regulatory arrangements for the period made the business plan unfinanceable and un-investible and, that, as a result, the funding conditions had not been satisfied. The Shareholders therefore declined to provide the New Shareholder Funding expected in March 2024. In addition, in March 2024, certain members of the Kemble Group announced they would not be servicing their own financings and defaulted on all debt payments due from April 2024 onwards. Thames Water Group has no current commitment from the Shareholders to provide new funding.
- 5.3 On 20 September 2024, TWUL published an RNS announcement:
- 5.3.1 explaining that Thames Water Group's liquidity runway was set to expire in May 2025 (provided the undrawn Class A Debt committed facilities, Class B Debt committed facilities and Liquidity Facilities remained available for drawing and were drawn);
 - 5.3.2 noting that, as part of its contingency planning, TWUL had entered into discussions with its financial stakeholders for consent to access certain restricted cash reserves; and
 - 5.3.3 noting that, should the Majority Creditor consent necessary to access such restricted cash reserves not be forthcoming and should it not be possible to draw the Class A Debt committed facilities and Class B Debt committed facilities, its available cash and cash equivalents would expire at the end of December 2024. Crucially, this would mean that Thames Water Group's liquidity runway could expire prior to the PR24 Final Determination being published. Even if the PR24 Final Determination were published within the liquidity runway, it would likely take several months for any holistic recapitalisation transaction to be implemented.
- 5.4 As a result of the shortened liquidity runway, Thames Water Group needed to consider taking steps to ensure it had sufficient liquidity to:
- 5.4.1 reach the PR24 Final Determination;
 - 5.4.2 implement any agreed recapitalisation transaction in order to achieve a holistic recapitalisation solution following the PR24 Final Determination; and/or
 - 5.4.3 initiate and complete a CMA Appeal (if required).

⁵ Those regulatory factors have included the final determination of Ofwat's review of TWUL's price controls for the period from 2025 to 2030. The final determination, which will set the limits on TWUL's revenue collection from customers for 2025 to 2030, is expected to be published between December 2024 and January 2025 (the "PR24 Final Determination"). The PR24 Final Determination will be binding on TWUL. However, TWUL has the option of appealing the PR24 Final Determination to the Competition and Markets Authority (such process is referred to as "CMA Appeal").

- 5.5 Therefore, the Plan Company, together with TWUL and TWUF, the AHG, the Bank Group and the Ad Hoc Hedge Counterparties, together with their respective advisers, have, since the summer of 2024 been engaged in extensive discussions to determine an interim solution to extend Thames Water Group's liquidity runway and provide a stable platform to implement a more holistic recapitalisation solution. Those negotiations have led to: (a) the October STID Proposals; and (b) the Plan and Interim Platform Transaction being proposed.

6 The Interim Platform Transaction and the Plan

- 6.1 The purpose and objective of the Plan is to provide Thames Water Group with a stable platform as an interim measure in advance of the PR24 Final Determination (and to provide the necessary platform to pursue a CMA Appeal, if required) and then complete a holistic recapitalisation transaction.
- 6.2 This will be achieved by (in summary):
- 6.2.1 injecting £1.5 billion of new funding by way of the Super Senior Funding and providing capacity for a potential further £1.5 billion of Additional Super Senior Funding (each as defined below) to address liquidity requirements in the near to medium term and to bridge to a holistic recapitalisation solution;
 - 6.2.2 extending the final maturity dates and all scheduled amortisation payment dates of all Class A Debt, Class B Debt and Subordinated Loans by two calendar years; and
 - 6.2.3 as a result of the foregoing, mitigating the risk of the Thames Water Companies having to file for SAR or administration proceedings (as applicable)
- 6.3 Further details of the Interim Platform Transaction are set out in Section 9 of the PSL.
- 6.4 The timetable for the hearing dates for the Plan (as currently scheduled) are as follows:
- 6.4.1 a convening hearing is currently listed before the Court for 17 December 2024; and
 - 6.4.2 a sanction hearing is currently listed before the Court for 20 January 2025.

7 Instructions and issues to be covered

- 7.1 You are instructed, as an expert to provide a report (see paragraph 9 below for further details) for the Court which provides analysis of the Interim Platform Transaction and, which estimates the outcome for creditors (and equity holders if applicable) in the event the Interim Platform Transaction is successful, and the Plan is sanctioned, and the outcome for creditors in the scenario that is considered most likely to occur if the proposed Plan is not sanctioned (the "Relevant Alternative").
- 7.2 In particular, the scope of your report should include:
- 7.2.1 consideration of the Relevant Alternative to the Plan – including a discussion as to the various alternative options that have been considered;
 - 7.2.2 details of the key analysis undertaken and the outcomes that are estimated to arise in the Relevant Alternative; and
 - 7.2.3 your assessment of whether classes of creditors, as relevant, would be worse off under the Interim Platform Transaction as compared with the Relevant Alternative.
- 7.3 In assessing the outcome of the Interim Platform Transaction, you should assume:



Appendix 3

Instructions

- 7.3.1 that the Interim Platform Transaction and the Plan bridge to a complete recapitalisation transaction, implemented by way of a further financial restructuring, in order to achieve a holistic solution for the Thames Water Group following the outcome of the PR24 Final Determination or any CMA Appeal; and
- 7.3.2 that all of the Thames Water Group's assets are subject to the floating charge created pursuant to the Security Agreement.⁶

7.4 During the course of your engagement, we (or counsel for the Group) may give you instructions on legal points upon which you should conduct your analysis. Where those instructions are material to the opinions expressed in your report, your report should record those instructions.

7.5 In your report you should only comment upon matters upon which you believe you are able to express an opinion as an expert (see also paragraph 8 below regarding your duties to the Court as an expert).

7.6 We have set out in Appendix 1 further guidance on the form and content of an expert report that you might find useful.

8 Your duty to the Court

8.1 In your report you should only comment upon matters upon which you believe you are able to express an opinion as an expert. We enclose a copy of [CPR Part 35](#), its accompanying [practice direction](#) and the [Guidance for the Instruction of Experts in Civil Claims 2014](#), the requirements of which you will need to familiarise yourself with. Please note in addition the requirements of the Chancery Guide 2022 (Chapter 9), which we also enclose.

8.2 In, addition to your overriding duty to the court, by signing a copy of this letter, you agree to comply with the Practice Direction to Part 35 of the CPR and Chapter 9 on Expert Evidence in the Chancery Guide 2022, in particular:

- 8.2.1 your evidence will be an independent product uninfluenced by the pressures of litigation (for example you would express the same opinion if you were given the same instructions by another party);
- 8.2.2 you must aim to assist the court by providing an independent, objective and unbiased opinion on matters within your expertise, and should not assume the role of an advocate;
- 8.2.3 you should consider all material facts, including those which might detract from your opinion (and your report should include reference to facts and materials which detract from your opinion as well as facts that support it);
- 8.2.4 when addressing questions of fact and opinion, you should keep the two separate. You must state those facts (whether assumed or otherwise) upon which your opinions are based and you must distinguish clearly between those facts that you know to be true and those facts which you assume;

⁶ We note that TWUL has publicly reported that the vast majority of its assets are Protected Land (as defined in section 219 of the Water Industry Act 1991) and would, therefore, be excluded from the security provided in relation to the Secured Debt; however, we note that the proceeds of Protected Land are purported to be subject to the security interests created by the Security Document. Without prejudice to the position of the Thames Water Group and the Plan Company on this issue, you should assume for the purposes of this analysis that all assets are subject to a floating charge.

- 8.2.5 you should confine your opinion to the matters which lie within your expertise; make it clear when a question or issue falls outside your expertise and when you are not able to reach a definite opinion, for example because you have insufficient information; and
- 8.2.6 if, after producing a report, you change your view on any material matter, this change of view should be communicated to all the parties without delay and, when appropriate, to the court.

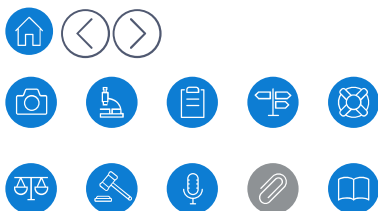
9 Structure of the Report

9.1 Your report (the "Relevant Alternative Report") should consist of:

- 9.1.1 a detailed curriculum vitae setting out your experience in this area, details of your qualifications, any prior experience you have had with the Group and referring to your ability to act as an independent expert;
- 9.1.2 an executive summary of the findings of the report (this may done as an appendix to the report);
- 9.1.3 a list of those that you spoke to for the purposes of preparing the Relative Alternative Report (whether employees of the Group or otherwise). If access was requested and not made available, then you should include relevant details;
- 9.1.4 a description of the information upon which you relied for the purposes of preparing the report;
- 9.1.5 who at Teneo assisted with the preparation of the Relative Alternative Report;
- 9.1.6 scope of work carried out by you for the purposes of the report and your approach to it, including details of any literature or other material that you have relied upon;
- 9.1.7 your analysis of and opinions in relation to the relevant issues. For the Relevant Alternative Report, this should include a discussion of what you considered to be the potential alternatives to the Plan and the basis on which the Relevant Alternative was considered to be the most likely outcome;
- 9.1.8 a summary of your conclusions; and
- 9.1.9 appendices where necessary.

10 Confidentiality

- 10.1 You will appreciate the importance of confidentiality in relation to your involvement as an expert on behalf of the Plan Company. This duty extends to the contents of your report and any drafts, and any discussions in relation to your role as an expert.
- 10.2 Please also note that during the course of your engagement you may be shown and/or receive documents which are of a privileged nature, some of which may have been received by us from the Thames Water Group, its' financial and/or legal advisors. Please note that provision of such documents or information to you is not intended to, and does not, waive privilege therein. Privileged information should not be referred to or relied upon in your Report unless otherwise agreed.
- 10.3 For completeness, we note that your report may be appended to the Explanatory Statement and/or supporting evidence submitted to the High Court of Justice England and Wales as part of the



Appendix 3

Instructions

Group's application for an order that meetings be convened for the purpose of considering and, if thought fit, approving the Plan.

- 10.4 Should any third party demand disclosure of any information in relation to this matter, through a legal process of in any other way, please contact us immediately and certainly before taking any course of action yourself. Please would you confirm your acceptance of these terms, as well as the terms contained in this letter as a whole, by signing and returning a copy of this letter.

11 Confirmation

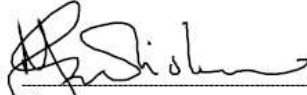
- 11.1 Please confirm your acceptance of the terms contained in this letter by signing and returning the enclosed copy of this letter.

Yours faithfully

Linklaters LLP.

Linklaters LLP
Encs.

I agree to be bound by the terms set out in the above letter.


Signed
Matt Cowlishaw

6/12/24
Dated

APPENDIX 1

1 Contents and form of the report

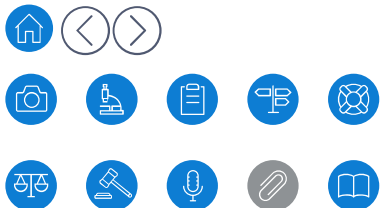
- 1.1 Further to paragraph 7 above, the report should:
- 1.1.1 be addressed to the court and not to TWUHL, TWUL or TWUF;
 - 1.1.2 contain a statement setting out the substance of all facts and instructions which are material to the opinions expressed in the report or upon which those opinions are based;
 - 1.1.3 make clear which of the facts stated in the report are within your own knowledge;
 - 1.1.4 where there is a range of opinion on the matters dealt with in the report, summarise the range of opinions and give reasons for your own opinion; and
 - 1.1.5 contain a summary of the conclusions reached;
 - 1.1.6 if you are not able to give an opinion without qualification, state the qualification;
 - 1.1.7 contain a statement that you understand your duty to the court and have complied with that duty and that you are aware of the requirements of Part 35 of the CPR, its accompanying practice direction and the Guidance for the Instruction of Experts in Civil Claims 2014.

2 Statement of Truth

- 2.1 Your report must contain a statement of truth in the following form:

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.



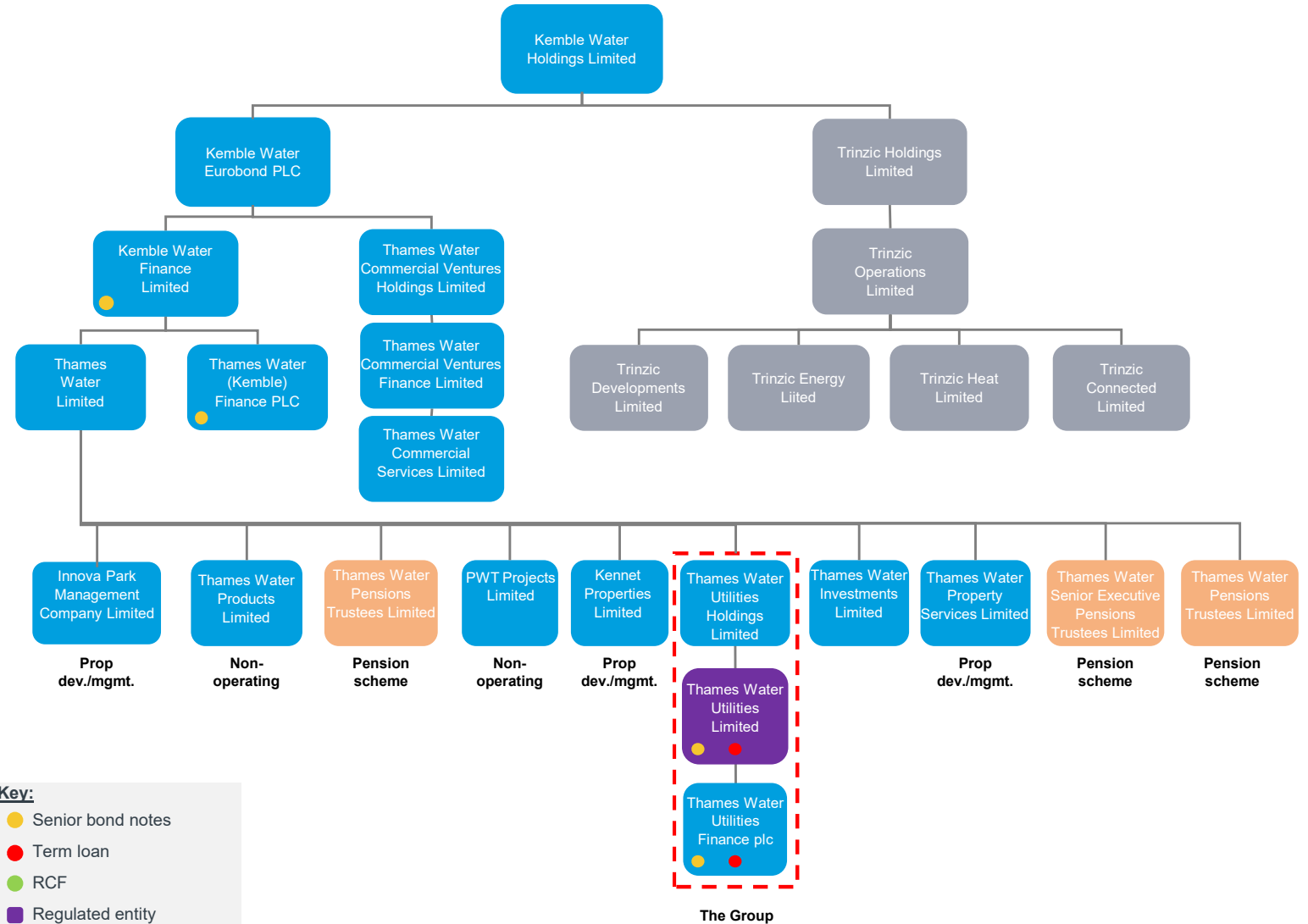
Appendix 4

Kemble Group structure

The Group consists of three entities, sitting within the wider Kemble Group, ultimately headed by Kemble Water Holdings Limited.

Regulated trading activity sits within TWUL, which holds all of the assets/licences required to maintain the Group's licenced water and sewerage business and is the only entity over which the SoS and Ofwat have powers to appoint SAs.

Group Structure



Key:

- Senior bond notes
- Term loan
- RCF
- Regulated entity
- Pension entities
- Entities ceased trading and in winddown
- WBS ringfence

Source: Financial statements



Appendix 5

Creditor build-up

Base Case

Step 7: Creditor build-up

Base case

Scenario 1 Plan and Final RP

£bn	HMG Funding	Interest Rate and Index Hedges	Super-Senior Funding	Currency Hedges	Class A Debt		Subordinated Debt	TWUL		Unsecured Claims	Total
					Class A Debt Make-Whole	Non-Make- Whole		Class B Debt	Intercompany Loan		
Principal as at 01 Feb 25 ¹	n/a	n/a	-	n/a	8.51	7.22	0.99	3.60	1.38	-	21.71
Interest accrued as at 01 Feb 25 ²	n/a	n/a	-	n/a	0.22	0.07	0.02	-	-	-	0.31
Consent fee	n/a	0.00	-	0.00	0.06	0.05	0.00	-	-	-	0.11
Debt drawdown	n/a	-	1.58	-	-	-	-	-	-	-	1.58
Closing balance as at 01 Feb 25	-	0.00	1.58	0.00	8.79	7.34	1.01	3.60	1.38	-	23.71
FX movement ³	n/a	n/a	-	n/a	0.04	-	-	-	-	-	0.04
Accretion on principal ⁴	n/a	n/a	n/a	n/a	0.01	0.09	n/a	n/a	n/a	n/a	0.11
Net interest accrued / (Paid) ⁵	n/a	-	0.02	-	(0.06)	0.01	(0.00)	0.14	0.04	-	0.15
Debt drawdown	n/a	-	-	-	-	-	-	-	-	-	-
Make-whole	n/a	-	0.21	-	-	-	-	-	-	-	0.21
Closing balance as at 30 Sep 25	-	0.00	1.82	0.00	8.78	7.44	1.01	3.74	1.42	-	24.22
Cash interest to deal close	n/a	-	0.07	-	0.29	0.16	0.04	-	-	-	0.57
Total cost	n/a	0.00	1.89	0.00	9.08	7.60	1.05	3.74	1.42	-	24.79

¹ RPI linked instruments accreted up to 01 Feb 25. Non GBP balances translated at the applicable forward spot rate as at 01 Feb 25.

² Interest accrued up to 01 Feb 25.

³ Impact of FX movement between 01 Feb 25 and 30 Sep 25.

⁴ Accretion of RPI linked instruments between 01 Feb 25 and 30 Sep 25.

⁵ Net impact of interest payments and accruals between 01 Feb 25 and 30 Sep 25.

Source: Teneo analysis



Appendix 5

Creditor build-up

Base Case

Step 7: Creditor build-up

Base case											
Scenario 2		RA (SAR)									
<i>£bn</i>	HMG Funding	Interest Rate and Index Hedges	Super-Senior Funding	Currency Hedges	Class A Debt Make-Whole	Class A Debt Non-Make-Whole	Class B Debt	Subordinated Debt	TWUL Intercompany Loan	Unsecured Claims	Total
Principal as at 01 Feb 25 ¹	-	n/a	n/a	n/a	8.51	7.22	0.99	3.60	1.38	-	21.71
Interest accrued as at 01 Feb 25 ²	-	n/a	n/a	n/a	0.22	0.07	0.02	-	-	-	0.31
Consent fee	-	-	n/a	-	-	-	-	-	-	-	-
Swap crystallisation	n/a	1.64	n/a	0.11	n/a	n/a	n/a	n/a	n/a	n/a	1.75
Backstop fee claim	-	-	n/a	-	-	-	-	-	-	0.05	0.05
Debt draw down	-	-	n/a	-	-	-	-	-	-	-	-
Closing balance as at 01 Feb 25	-	1.64	-	0.11	8.73	7.29	1.01	3.60	1.38	0.05	23.82
FX movement ³	-	n/a	n/a	n/a	0.09	-	-	-	-	-	0.09
Accretion on principal ⁴	-	n/a	n/a	n/a	0.03	0.22	-	-	-	-	0.24
Make-whole	-	n/a	n/a	n/a	0.74	-	-	-	-	-	0.74
Default interest accrued	-	0.12	n/a	0.01	0.77	0.49	0.09	0.32	0.09	-	1.90
Debt draw down ⁵	3.34	-	n/a	-	-	-	-	-	-	-	3.34
Closing balance as at 31 Jul 26	3.34	1.77	-	0.12	10.37	7.99	1.10	3.92	1.47	0.05	30.14

¹ RPI linked instruments accreted up to 01 Feb 25. Non GBP balances translated at the applicable forward spot rate as at 01 Feb 25.

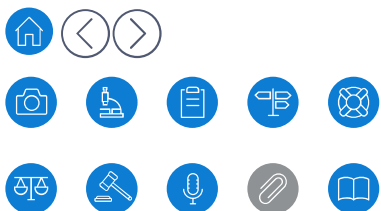
² Interest accrued up to 01 Feb 25.

³ Impact of FX movement between 01 Feb 25 and 31 Jul 26.

⁴ Accretion of RPI linked instruments between 01 Feb 25 and 31 Jul 26.

⁵ Additional HMG funding draw down included to cover cash interest between 01 Feb 25 and 31 Jul 26.

Source: Teneo analysis



Appendix 5

Creditor build-up

Sensitised Case

Step 7: Creditor build-up

Sensitised case

Scenario 1 Plan and Final RP

£bn	HMG Funding	Interest Rate and Index Hedges	Super-Senior Funding	Currency Hedges	Class A Debt		Subordinated Debt	TWUL		Unsecured Claims	Total
					Class A Debt Make-Whole	Non-Make- Whole		Class B Debt	Intercompany Loan		
Principal as at 01 Feb 25 ¹	n/a	n/a	-	n/a	8.51	7.22	0.99	3.60	1.38	-	21.71
Interest accrued as at 01 Feb 25 ²	n/a	n/a	-	n/a	0.22	0.07	0.02	-	-	-	0.31
Consent fee	n/a	0.00	-	0.00	0.06	0.05	0.00	-	-	-	0.11
Debt drawdown	n/a	-	1.82	-	-	-	-	-	-	-	1.82
Closing balance as at 01 Feb 25	-	0.00	1.82	0.00	8.79	7.34	1.01	3.60	1.38	-	23.95
FX movement ³	n/a	n/a	-	n/a	0.04	-	-	-	-	-	0.04
Accretion on principal ⁴	n/a	n/a	n/a	n/a	0.01	0.09	n/a	n/a	n/a	n/a	0.11
Net interest accrued / (Paid) ⁵	n/a	-	0.03	-	(0.06)	0.01	(0.00)	0.14	0.04	-	0.16
Debt drawdown	n/a	-	-	-	-	-	-	-	-	-	-
Make-whole	n/a	-	0.21	-	-	-	-	-	-	-	0.21
Closing balance as at 30 Sep 25	-	0.00	2.06	0.00	8.78	7.44	1.01	3.74	1.42	-	24.47
Cash interest to deal close	n/a	-	0.07	-	0.29	0.16	0.04	-	-	-	0.57
Total cost	n/a	0.00	2.14	0.00	9.08	7.60	1.05	3.74	1.42	-	25.03

¹ RPI linked instruments accreted up to 01 Feb 25. Non GBP balances translated at the applicable forward spot rate as at 01 Feb 25.

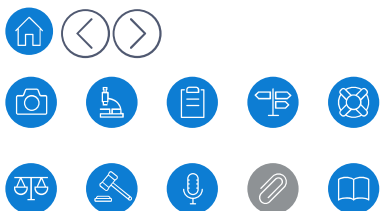
² Interest accrued up to 01 Feb 25.

³ Impact of FX movement between 01 Feb 25 and 30 Sep 25.

⁴ Accretion of RPI linked instruments between 01 Feb 25 and 30 Sep 25.

⁵ Net impact of interest payments and accruals between 01 Feb 25 and 30 Sep 25.

Source: Teneo analysis



Appendix 5

Creditor build-up

Sensitised Case

Step 7: Creditor build-up

Sensitised case

Scenario 2 RA (SAR)

£bn	HMG Funding	Interest Rate and Index Hedges	Super-Senior Funding	Currency Hedges	Class A Debt			TWUL		Unsecured Claims	Total
					Class A Debt Make-Whole	Non-Make-Whole	Class B Debt	Subordinated Debt	Intercompany Loan		
Principal as at 01 Feb 25 ¹	-	n/a	n/a	n/a	8.51	7.22	0.99	3.60	1.38	-	21.71
Interest accrued as at 01 Feb 25 ²	-	n/a	n/a	n/a	0.22	0.07	0.02	-	-	-	0.31
Consent fee	-	-	n/a	-	-	-	-	-	-	-	-
Swap crystallisation	n/a	1.64	n/a	0.11	n/a	n/a	n/a	n/a	n/a	n/a	1.75
Backstop fee claim	-	-	n/a	-	-	-	-	-	-	0.05	0.05
Debt drawdown	-	-	n/a	-	-	-	-	-	-	-	-
Closing balance as at 01 Feb 25	-	1.64	-	0.11	8.73	7.29	1.01	3.60	1.38	0.05	23.82
FX movement ³	-	n/a	n/a	n/a	0.09	-	-	-	-	-	0.09
Accretion on principal ⁴	-	n/a	n/a	n/a	0.03	0.22	-	-	-	-	0.24
Make-whole	-	n/a	n/a	n/a	0.74	-	-	-	-	-	0.74
Default interest accrued	-	0.12	n/a	0.01	0.77	0.49	0.09	0.32	0.09	-	1.90
Debt drawdown ⁵	4.07	-	n/a	-	-	-	-	-	-	-	4.07
Closing balance as at 31 Jul 26	4.07	1.77	-	0.12	10.37	7.99	1.10	3.92	1.47	0.05	30.87

¹ RPI linked instruments accreted up to 01 Feb 25. Non GBP balances translated at the applicable forward spot rate as at 01 Feb 25.

² Interest accrued up to 01 Feb 25.

³ Impact of FX movement between 01 Feb 25 and 31 Jul 26.

⁴ Accretion of RPI linked instruments between 01 Feb 25 and 31 Jul 26.

⁵ Additional HMG funding drawdown included to cover cash interest between 01 Feb 25 and 31 Jul 26.

Source: Teneo analysis



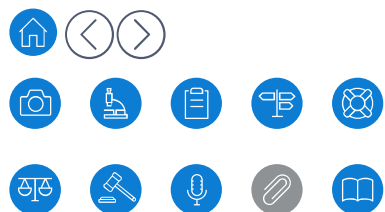
Appendix 6

Illustrative waterfall applied to valuation outcomes

High Case

Classes of Creditors Key

- Liquidity Facility Class
- Interest Rate and Index Hedging Class
- Currency Hedging Class
- Class A Debt Non-Make-Whole Class
- Class A Debt Make-Whole Class
- Class B Debt Class
- Subordinated Creditor Class



Illustrative waterfall applied to valuation outcomes – High Case

£bn	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)
Mr Weerasinghe's Valuation (High Case)						
	Base Case		Sensitised Case		Amounts at deal close	
Illustrative transaction proceeds⁽²⁾	17.93	20.02	13.19	15.33		
Interest Rate and Index Hedges	1.20	-	1.20	-		
Currency Hedges	0.09	-	0.09	-		
Illustrative distribution proceeds	16.65	20.02	11.91	15.33		
Interim proceeds received ⁽³⁾	0.57	-	0.57	-		
Total proceeds	17.21	20.02	12.47	15.33		
<i>Distributions:</i>						
● Liquidity Facilities	N/A	N/A	N/A	N/A	N/A	N/A
HMG funding	N/A	100.0 p/£	N/A	100.0 p/£	N/A	3.34/4.07 ⁽¹⁾
● Interest Rate and Index Hedges	100.0 p/£	100.0 p/£	100.0 p/£	100.0 p/£	0.00	1.77
Super-Senior funding	100.0 p/£	N/A	100.0 p/£	N/A	1.89/2.14 ⁽¹⁾	N/A
● Currency Hedges	100.0 p/£	82.5 p/£	100.0 p/£	49.1 p/£	0.00	0.12
● Class A Debt Make-Whole	91.7 p/£	78.3 p/£	62.0 p/£	50.4 p/£	9.08	10.37
● Class A Debt Non-Make-Whole	91.5 p/£	83.7 p/£	61.3 p/£	52.6 p/£	7.60	7.99
● Class B Debt	3.5 p/£	0.0 p/£	3.5 p/£	0.0 p/£	1.05	1.10
● Subordinated debt	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£	3.74	3.92
TWUL Intercompany loan	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£	1.42	1.47
Unsecured claims	N/A	0.0 p/£	N/A	0.0 p/£	N/A	0.05
<i>Residual equity</i>	-	-	-	-	N/A	N/A
Total					24.79/25.03	30.14/30.86

Notes:

1: Base Case/Sensitised Case

2: As per Mr Weerasinghe's independent valuation work (Step 6)

3: Interest received by Class A and B Creditors and Super-Senior lenders

Source: Teneo analysis

Source: Teneo analysis

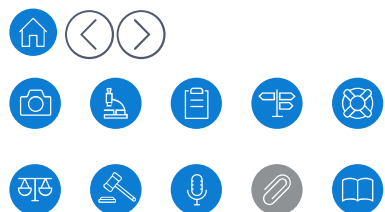
Appendix 6

Illustrative waterfall applied to valuation outcomes

Low Case

Classes of Creditors Key

- Liquidity Facility Class
- Interest Rate and Index Hedging Class
- Currency Hedging Class
- Class A Debt Non-Make-Whole Class
- Class A Debt Make-Whole Class
- Class B Debt Class
- Subordinated Creditor Class



Illustrative waterfall applied to valuation outcomes – Low Case

£bn	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)	Plan and Final RP	RA (SAR)
Mr Weerasinghe's Valuation (Low Case)						
	Base Case		Sensitised Case		Amounts at deal close	
Illustrative transaction proceeds⁽²⁾	15.39	17.43	12.01	14.12		
Interest Rate and Index Hedges	1.20	-	1.20	-		
Currency Hedges	0.09	-	0.09	-		
Illustrative distribution proceeds	14.10	17.43	10.72	14.12		
Interim proceeds received ⁽³⁾	0.57	-	0.57	-		
Total proceeds	14.67	17.43	11.28	14.12		
<i>Distributions:</i>						
● Liquidity Facilities	N/A	N/A	N/A	N/A	N/A	N/A
HMG funding	N/A	100.0 p/£	N/A	100.0 p/£	N/A	3.34/4.07 ⁽¹⁾
● Interest Rate and Index Hedges	100.0 p/£	100.0 p/£	100.0 p/£	100.0 p/£	0.00	1.77
Super-Senior funding	100.0 p/£	N/A	100.0 p/£	N/A	1.89/2.14 ⁽¹⁾	N/A
● Currency Hedges	100.0 p/£	66.5 p/£	100.0 p/£	41.6 p/£	0.00	0.12
● Class A Debt Make-Whole	76.6 p/£	65.0 p/£	55.0 p/£	44.2 p/£	9.08	10.37
● Class A Debt Non-Make-Whole	76.1 p/£	68.8 p/£	54.1 p/£	45.7 p/£	7.60	7.99
● Class B Debt	3.5 p/£	0.0 p/£	3.5 p/£	0.0 p/£	1.05	1.10
● Subordinated debt	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£	3.74	3.92
TWUL Intercompany loan	0.0 p/£	0.0 p/£	0.0 p/£	0.0 p/£	1.42	1.47
Unsecured claims	N/A	0.0 p/£	N/A	0.0 p/£	N/A	0.05
<i>Residual equity</i>	-	-	-	-	N/A	N/A
Total					24.79/25.03	30.14/30.86

Notes:
 1: Base Case/Sensitised Case
 2: As per Mr Weerasinghe's independent valuation work (Step 6)
 3: Interest received by Class A and B Creditors and Super-Senior lenders

Source: Teneo analysis

Source: Teneo analysis

Glossary



Glossary

£	Pound	Contingent	Contingent Capex
AFA	Administration Funding Agreement	CPI	Consumer Price Index
AMP8, AMP9	Asset Management Plan for the period 2025 to 2030 and 2030 to 2035 respectively	Currency Hedging Agreements	A Class under the Plan comprising of all currency hedging agreements within the Whole Business Securitisation
Backstop fee	Payment made to parties who agree to guarantee funding by covering any shortfall if needed	DCF	Discount cash flow
Base Capex/Maintenance Capex	Capital expenditure to maintain the current asset base	DD	Draft Determination published by Ofwat 11 Jul 2024
Base Case	Company's 20-year financial forecast base case	DD allowances	Draft Determination allowances
Bn	Billion	DD response	TWUL response to the Ofwat DD, published in Aug 24
Board	Thames Water Utilities Holdings Limited board of directors	DEFRA	Department for Environment, Food, and Rural Affairs
Borrower	Thames Water Utilities Limited or Thames Water Utilities Finance plc	D-MeX	Developer services measures of experience
c.	circa	DSR	Debt Service Reserve
Capex	Capital Expenditure	Enhancement Capex	Capital expenditure to improve the asset base (excluding maintenance)
CF Note	Consent Fee Notes under terms of Plan	EOD	Event of Default
Class A Debt	A Class under the Plan comprising of the Class A Revolving Credit Facilities, Class A Term Loans, Class A Bonds and Class A Notes within the Whole Business Securitisation	EOS	Estimated Outcome Statement
Class B Debt	A Class under the Plan comprising of the Class B Revolving Credit Facilities, Class B Term Loans and Class A Bonds within the Whole Business Securitisation	EV	Enterprise Value
CMA	Competition and Markets Authority	FD	Final Determination, expected by Ofwat on 19 December
C-MeX	Customer measures of experience	Final RP	Final Restructuring Plan effective Sep 25
Company	Thames Water Utility Holdings Limited	Finance Documents	Financing agreement for Whole Business Securitisation
		Forecasts	the Company's Forecast Base Case and Forecast Sensitised Case
		FY24, FY25, FY26, FY27, FY28	Year ended (or ending) 31 Mar 24, 25, 26, 27, 28
		Group	Thames Water Utilities Holdings Limited and its subsidiaries, Thames Water Utilities Limited and Thames Water Utilities Finance plc
		Guarantors	Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and/or Thames Water Utilities Finance plc



Glossary

HMG	His Majesty's Government	ODI	Outcome Delivery Incentive
IB	Investment Bank	Ofwat	The Water Services Regulation Authority
IBP25	Five-year business plan prepared by TWUL over AMP8	OID	Original issue discount
Interest Rate and Index-linked Hedging Agreements	A Class under the Plan comprising of all interest rate hedging agreements and index-linked or inflation-linked hedging agreements within the Whole Business Securitisation	OIS	Overnight Index Swap
IED	Industrial Emissions Directive	Opex	Operating Expenditure
Interim RP	Interim Restructuring Plan effective Jan 25	pa	per annum
IRR	Internal Rate of Return	Plan	The Restructuring Plan proposed by TWUHL, commencing with a convening hearing on 17 Dec 24, and with a proposed effective date of 31 Jan 25
ISDA	International swaps and derivatives association	Plan Debts	The debt instruments of the Whole Business Securitisation considered as a Class under the Plan
Jefferies	Jefferies Group LLC	pm	per month
Kemble	Kemble Water Holdings Limited	PPE	Property, Plant and Equipment
Kemble Group	Kemble Water Holdings Limited and its subsidiaries (including the Group)	PPF	Pension Protection Fund
Kroll	Kroll Advisory Limited	PR24	Price Review 2024
Licence	Licence of appointment from the Secretary of State for the Environment	QFC	Qualified Financial Contract
Liquidity Facilities	A Class under the Plan comprising of the Class A DSR Liquidity Facility, the Class B DSR Liquidity Facility and the O&M Reserve Facility.	RA	Relevant Alternative
LTDS	Long Term Delivery Strategy	RCF	Revolving Credit facility
m	Million	RCV	Regulatory Capital Value
M&A	Mergers & Acquisitions	Regulated Water Company	A water and sewerage undertaker holding an appointment under Chapter I of Part II of the Water Industry Act 1991
Make-whole	Provision providing protection to bondholders in the event that the bonds are redeemed early	Relevant Alternative	The most likely alternative option in the event the Plan is not sanctioned
Management	Company's executive management	Report	This report to the High Court of Justice dated 11 December 2024
MtM	Mark to market	Rescue	The solvent exit of a legal entity from a SAR, likely following a restructuring of its balance sheet
N/A	Not applicable	Restructuring Plan	A restructuring plan under Part 26A of the Companies Act 2006
NPV	Net present value	RNS	Regulatory News Services
O&M	Operation and Maintenance	RP	Restructuring Plan



Glossary

RPI	Retail prices index	TL	Term Loan
S&P	Standard & Poor's	Totex	Total expenditure
SA	Special Administrators	TSA	Transaction Support Agreement dated 25 October 2024
SAR	Special Administration Regime, in this case being a Water Industry Special Administration Regime under section 23 of the WIA	TWL	Thames Water Limited
Scenarios	Scenarios 1 and 2 as described below	TWUCF	Thames Water Utilities Cayman Finance Limited
Scenario 1	Restructuring Plan scenario	TWUF	Thames Water Utilities Finance plc
Scenario 2	Relevant Alternative SAR scenario	TWUHL	Thames Water Utilities Holdings Limited
Sensitised Case	Company's 20-year financial forecast sensitised case	TWUL	Thames Water Utilities Limited
Shareholders	The Kemble Group's shareholders	USPP	US Private Placement
SONIA	Sterling Over Night Indexed Average	UWWTR	Urban Wastewater Treatment Regulation
SoS	Secretary of State for Environment, Food and Rural Affairs	WACC	Weighted Average Cost of Capital
Standstill	Triggered by an Event of Default under the WBS facility documents, restricting lenders' ability to take action while controlling spend within the WBS	WBS	Whole Business Securitisation
STID	Security Trust and Intercreditor Deed dated 30 August 2007	WBS Debt	The secured debt provided to the Group by the WBS creditors
Subordinated Debt/Loans	A Class under the Plan comprising of the subordinated loan agreements within the Whole Business Securitisation	WBS Group	Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and Thames Water Utilities Finance plc
Super-Senior	Newly introduced debt that takes priority over other debt in a company's capital structure	WBS creditors	The secured lenders to the Whole Business Securitisation
Super-Senior Term Sheet	The Project Crabtree term sheet dated 25 Oct 24, setting out the terms of the proposed Super Senior facilities	WIA	Water Industry Act 1991
Swap	A derivative contract between two parties	WINEP	Water Industry National Environmental Programme
Teneo	Teneo Financial Advisory Limited	WTS	Water Transfer Scheme
Thames Water Group	Thames Water Utilities Holdings Limited and its subsidiaries, Thames Water Utilities Limited and Thames Water Utilities Finance plc		





This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

Teneo Financial Advisory Limited is registered in England & Wales with registered number 13192958 and its registered office at 11 Pilgrim Street, London, EC4V 6RN, United Kingdom